STATE OF
NEW YORK

2011-12 Executive Budget
Economic and Revenue Outlook

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2011-12 EXECUTIVE BUDGET

ECONOMIC AND REVENUE OUTLOOK

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RECEIPTS OVERVIEW

RECEIPTS OVERVIEW

The Economic and Revenue Outlook is a volume designed to enhance the presentation and transparency of the 2011-12 Executive Budget. The book provides detailed information on the economic and receipt projections underlying the Executive Budget. The economic analysis and forecasts presented in this volume are also used in the development of the expenditure projections where spending trends are impacted by economic conditions.

Financial Plan receipts comprise a variety of taxes, fees, charges for State-provided services, Federal grants, and other miscellaneous receipts. The Economic and Revenue Outlook includes receipt information required by Article VII of the State Constitution and Section 22 of the State Finance Law and provides information to supplement extensive reporting enhancements undertaken in recent years. The Division of the Budget (DOB) believes the information will aid the Legislature and the public in fully understanding and evaluating the economic assumptions and receipts estimates underlying the 2011-12 Executive Budget. The receipt estimates and projections have been prepared by the Division of the Budget with the assistance of the Department of Taxation and Finance and other agencies concerned with the collection of State receipts. To the extent they are material, sources of receipts not referenced in this volume are discussed in the presentations of the agencies primarily responsible for executing the programs financed by such receipts. The *Economic, Revenue and Spending Methodologies* and a *Data Appendix* for this volume are available at the Division of the Budget's website at www.budget.state.ny.us. The Methodology volume provides a comprehensive review of the methods used in determining the economic and tax receipt projections.

The Economic and Revenue Outlook is presented in the following general sections:

- **Financial Plan Receipts and Projections**: Provides a summary of Financial Plan receipts for the current year and the 2011-12 Budget year by tax category and fund type.

- **Financial Plan Tables and Cash Flow**: Provides Financial Plan tables for receipts by fund type and includes a detailed report on monthly cash flow projections for the upcoming fiscal year.

- **2011-12 Revenue Actions**: Summarizes the revenue actions proposed with the 2011-12 Executive Budget.

- **Economic Backdrop**: Provides a detailed description of the Division's forecast of key economic indicators for the national and New York State economies.

- **Comparison of New York State Tax Structure to Other States**: Compares the New York tax structure and burden to other states.

- **Tax Receipts Explanation**: Provides a detailed report for each tax and miscellaneous receipts source describing historical receipts and projections for the current and upcoming budget years, the impact of legislation proposed with the Executive Budget, and significant legislation that has been enacted.

- **Dedicated Fund Tax Receipts**: Provides a report on dedicated tax receipt estimates, with an emphasis on transportation-related dedicated taxes.

- **Audit and Compliance Receipts**: Provides data and analysis to better understand receipts collections.

THE NATIONAL ECONOMY

The nation's recovery from the longest and most severe recession since the 1930s has been difficult and painfully slow. Thus far, the recovery has failed to build sufficient momentum to create the number of jobs one might for during an economic expansion, despite the implementation of a $787 billion Federal spending program. Although private sector employment has risen for 12 consecutive months, job growth has barely exceeded growth in the labor force, leaving the unemployment rate at the end of 2010 0.7 percentage point below its October 2009 peak. Only about 1.3 million of the 8.5 million private sector jobs that were lost have returned. The housing market's response to a government credit program was purely transitory, with more than one fifth of the nation's homes reported still to be "underwater," saddled with mortgage debt that exceeds their market value. Credit markets are improving, but only gradually.

Toward the end of last year, both the Congress and the Federal Reserve initiated new programs to stimulate economic activity. This new stimulus is expected to strengthen existing trends that were already providing some forward motion to the economy, including a rebuilding of inventories, global growth, rising equity markets, and renewed private sector investment. Preliminary data for the fourth quarter of 2010 indicates that final sales growth, which was unusually weak during the early stage of the recovery, is picking up. Real household spending of over 4 percent is estimated for the fourth quarter, which, if realized, would represent the first quarter of such growth since 2006Q4. The Budget Division projects real U.S. GDP growth of 3.0 percent for 2011, following growth of 2.8 percent for 2010. Real household spending of 3.6 percent is projected for 2011, following growth of 1.8 percent for 2010.

Going forward, the economy will continue to be supported by expansionary policies, with the impact of the overhang from the credit/housing market bubble gradually waning with time. However, due to the lag between economic activity and revenue growth, state and local governments are likely to remain under intense fiscal pressure. With the labor market expected to gain strength over the course of the year, the unemployment rate is expected to gradually decline, ending 2011 close to 9 percent. In summary, the labor market is slowly improving, but a high degree of slack remains.

Although energy prices have recently surged, the absence of any significant wage pressure is expected to delay their transmission into the “core” measure of inflation that excludes the volatile food and energy components, at least over the short run. Inflation of 1.8 percent is projected for 2011, as measured by growth in the Consumer Price Index, following 1.6 percent for 2010. U.S. corporate profits from current production, which includes the inventory valuation and capital consumption adjustments, is projected to rise 6.2 percent in 2011, following growth of 28.8 percent in 2010. Given the outlook for the labor market and moderate productivity growth, DOB predicts wages to grow 4.6 percent for 2011, following a 2.1 percent increase in 2010.

Risks to the U.S. Forecast

The Budget Division's outlook for both the national and State economies is risk-balanced, given the current economic data. However, much of the renewed confidence in the recovery depends upon the improvement in the pace of job growth that is projected over the coming quarters. If that improvement fails to materialize, households may pull back once again, resulting in lower consumption growth than is reflected in this forecast. A substantial equity market correction could have a similar effect. A surge in foreclosures could impede the recovery in home prices, which would in turn delay the recovery in household net worth, also resulting in lower rates of household spending than projected. Furthermore, renewed concerns over the sovereign debt problems emanating from the euro-zone could result in widening risk spreads and a decline in equity markets. Since energy price growth acts as a virtual tax on household spending, faster growth in the price of oil than expected could also result in lower consumption spending than anticipated.

Alternatively, the impact of new Federal stimulus spending could accelerate the pace of the recovery beyond what is currently projected. A stronger than expected recovery in the labor market could increase household spending beyond what is currently projected, resulting in greater profits growth and stronger investment growth. Such an eventuality could also lead to stronger equity market growth than expected, and a faster recovery in household wealth. Finally, stronger global growth than expected could result in a faster pickup in the demand for U.S. exports.

THE NEW YORK STATE ECONOMY

The New York State economy entered the last recession about eight months after the nation as a whole and appears to have emerged from the downturn with a lag of only six months. The State lost about 353,000 private sector jobs during the downturn, about 23,000 more jobs than were lost during the 2001-2003 downturn. State private employment fell 4.8 percent from its April 2008 peak, less than the 7.3 percent job loss suffered by the nation as a whole.

However, the associated loss of income was far greater for the State than for the nation. Between the first half of 2008 and the first half of 2010, the most recent period for which reliable data at the State level are available, U.S. income fell 3.7 percent compared to a 6.5 percent decline for New York. When combined with the concomitant decline in real estate values, the Great Recession has created enormous fiscal strain for businesses, individuals, as well as for municipal governments at every level.

New York’s economic recovery now appears well underway, with total employment growing 0.3 percent on a year-over-year basis in 2010Q2, the first quarter of growth since the third quarter of 2008. The equity market correction that began in April with the eruption of the euro-zone debt crisis appears to have slowed the State’s momentum, consistent with national trends. But by the end of the third quarter, financial market activity began to rebound. That development, combined with strong tourist activity and the support of Federal stimulus programs, appears to have put the State’s economic recovery back on track, with the State economy expected to continue to expand at a modest pace. The Budget Division projects State employment growth of 0.7 percent for

2011, following a decline of 0.1 percent for 2010. State wages are projected to rise 3.2 percent in 2011, following growth of 4.0 percent in 2010, with total personal income rising 5.0 percent in 2011, following growth of 3.9 in 2010. All of these income growth rates are well below historical averages.

Risks to the New York Forecast

All of the risks to the U.S. forecast apply to the State forecast as well, although as the nation's financial capital, developments that have an impact on credit markets, such as the euro-debt crisis, pose a particularly large degree of risk for New York. A large 2011 equity market correction could be quite destabilizing to the financial sector and ultimately bonuses and State wages overall. These risks are compounded by the uncertainty surrounding the implementation of financial reform, which is already altering the composition of bonus packages in favor of stock grants with long-term payouts and claw-back provisions. This affects the forecast for taxable wages. In addition, it is also uncertain whether finance sector revenue generating activity such as trading, lending, and underwriting will ever return to pre-crisis levels, resulting in additional risk to the forecasts for bonuses and taxable capital gains.

There are, however, some upside risks to DOB's New York economic outlook as well. A stronger national or global economy than projected could increase the demand for New York goods and services, resulting in stronger job growth. Such an outcome could lead to stronger levels of business activity and income growth. It could also result in a stronger and earlier upturn in stock prices, stimulating additional financial market activity, and producing higher wage and bonus growth than currently projected. Of course, a stronger national economy could force the Federal Reserve to raises interest rates earlier or more rapidly than projected, which could negatively affect the State economy and the financial sector in particular.

Although State employment and wages are expected to continue to grow, levels of financial market activity remain well below their 2007 peak levels. Moreover, a substantial amount of uncertainty surrounds finance industry profitability and executive pay as a result of the recently passed financial reform package. The recent news on compensation suggests that there could be a new paradigm developing on Wall Street, raising doubts as to whether the levels of compensation observed as recently as 2007-08 will ever be seen again. Consequently, State income growth is likely to remain at historically low rates for quite some time.

SELECTED ECONOMIC INDICATORS
(Calendar Year)

	2009 (actual[1])	2010 (estimate)	2011 (forecast)	2012 (forecast)	2013 (forecast)	2014 (forecast)
U.S. Indicators[2]						
Real Gross Domestic Product ($ B)	12,881	13,246	13,640	14,126	14,633	15,129
Percent Change	(2.6)	2.8	3.0	3.6	3.6	3.4
Personal Income ($ B)	12,175	12,541	13,173	13,688	14,467	15,333
Percent Change	(1.7)	3.0	5.0	3.9	5.7	6.0
Nonagricultural Employment (millions)	130.9	130.3	131.9	134.6	137.2	140.0
Percent Change	(4.3)	(0.5)	1.3	2.0	2.0	2.0
Unemployment Rate	9.3	9.6	9.3	8.3	7.4	6.6
CPI Inflation	(0.3)	1.6	1.8	1.9	2.3	2.5
New York State Indicators						
Personal Income[2] ($ B)	891.2	925.9	972.3	1,001.9	1,054.4	1,110.7
Percent Change	(3.1)	3.9	5.0	3.1	5.2	5.3
Wages and Salaries[2] ($ B)	481.1	500.5	516.5	543.3	571.7	600.3
Percent Change	(7.2)	4.0	3.2	5.2	5.2	5.0
Bonuses3 ($ B)	56.5	67.1	65.8	70.9	75.5	80.3
Percent Change	(31.6)	18.8	(2.0)	7.8	6.5	6.4
Employment[2] (thousands)	8,312.0	8,305.9	8,367.1	8,471.9	8,572.4	8,654.3
Percent Change	(3.1)	(0.1)	0.7	1.3	1.2	1.0
Unemployment Rate (percent)	8.4	8.4	8.1	7.7	7.3	6.9
NYS Adjusted Gross Income (NYSAGI)						
Capital Gains ($ mil.)	32,430	38,993	43,052	55,133	44,959	48,221
Percent Change	(43.1)	20.2	10.4	28.1	(18.5)	7.3
Total NYSAGI ($ mil.)	590,308	620,344	647,983	693,049	720,043	761,533
Percent Change	(10.8)	5.1	4.5	7.0	3.9	5.8

[1] For NYSAGI variables, 2009 is an estimate based on preliminary processing data.
[2] Nonagricultural employment, wage, and personal income numbers are based on QCEW data.
[3] Series created by the Division of the Budget.

Source: Moody's Economy.com; NYS Department of Labor; NYS Department of Taxation and Finance; DOB staff estimates.

THE REVENUE SITUATION

Consistent with the slow pace of the economic recovery, revenue growth has been weak. After plunging 12.3 percent in SFY 2009-10, tax receipts growth, correcting for law changes, is estimated to be a tepid 2.1 percent in 2010-11; a more robust 7.5 percent is projected for 2011-12. Unadjusted State funds tax receipts increased by an estimated 5.4 percent in 2010-11 and a projected 6.6 percent in 2011-12; in addition to below average growth, revenue collections have exhibited volatility. The uncertainty surrounding the year-end sunset of the Federal tax cuts and the last minute extension created significant taxpayer confusion. The impacts of potential changes in the timing and level of financial sector bonus payments and in the way employees in this sector are compensated as a result of recent financial reforms are unknown. Extreme volatility in the volume of taxable capital gains, the large overhang of residential and commercial mortgage debt, the continuation of recent gains in consumer spending, and the expected recovery from the apparent decline in the value of property being insured have all provided obstacles to accurate forecasting. In addition, the lag between the realization of profits as well as the use of previous overpayments by taxpayers, make projecting business tax receipts very difficult. Further, inconsistent personal income and business taxpayer behavior related to the timing and level of estimated and final payments have caused large swings in quarterly receipts.

As a result of these and other factors, the receipts forecast (General Fund before debt service) has been revised downward by $699 million for 2010-11, $950 million for 2011-12, and $687 million for 2012-13, mainly reflecting the weakness seen in Personal Income Tax and Business Tax collections for the current year when compared with the Mid-year Update. For the most part, the downward revisions to out-year projections reflect reductions in the current-year base forecast.

A modest acceleration in State employment and average wage growth, as well as the stock market recovery, are expected to provide growth of 7.3 percent in personal income tax receipts in 2011-12. Projected corporate profits growth for the 2011 calendar year combined with the tax credit deferral legislation enacted in 2010 is expected to provide a second consecutive year of growth in business tax receipts beginning in 2011-12. The return of consumers to the marketplace, partially offset by the return of a limited version of the tax exemption on clothing is projected to produce sales tax growth of 4.3 percent in 2011-12.

Governmental Funds
Actual and Base Tax Receipts Growth
(percent growth)

State Fiscal Year	Actual Receipts	Base Receipts	Inflation Adjusted Base Receipts
1987-88	6.2	6.4	1.9
1988-89	1.6	2.9	(2.3)
1989-90	6.8	8.3	2.4
1990-91	(0.8)	(3.8)	(8.2)
1991-92	7.2	1.4	(2.0)
1992-93	6.1	5.0	2.0
1993-94	4.3	0.7	(1.8)
1994-95	0.1	1.5	(1.1)
1995-96	2.6	3.6	0.6
1996-97	2.0	2.6	0.2
1997-98	3.7	5.6	4.0
1998-99	7.2	7.9	5.8
1999-00	7.5	9.1	5.9
2000-01	7.9	10.1	7.4
2001-02	(4.9)	(4.2)	(6.4)
2002-03	(6.7)	(8.0)	(10.8)
2003-04	8.2	5.8	2.5
2004-05	13.4	11.5	7.7
2005-06	10.2	9.3	5.7
2006-07	9.7	4.9	2.1
2007-08	3.7	13.4	9.5
2008-09	(0.8)	(3.2)	(3.3)
2009-10	(3.2)	(12.3)	(14.0)
2010-11*	5.4	2.1	0.3
2011-12**	6.6	7.5	5.4
2012-13**	1.7	7.1	4.7
2013-14**	5.0	5.4	2.8
2014-15**	3.0	5.5	2.9

	Actual Change	Base Change	Adjusted Base Change
Historical Average (87-88 to 09-10)	**4.0**	**3.4**	**0.3**
Forecast Average (10-11 to 14-15)	**4.3**	**5.5**	**3.2**
Forecast Average (11-12 to 14-15)	**4.1**	**6.4**	**3.9**
Recessions	**1.3**	**(1.2)**	**(4.2)**
Expansions	**5.7**	**6.4**	**3.3**

*Estimated Receipts

**Projected Receipts

RECEIPTS OVERVIEW

TOTAL RECEIPTS
(millions of dollars)

	2009-10 Actual	2010-11 Estimated	Annual $ Change	Annual % Change	2011-12 Projected	Annual $ Change	Annual % Change
General Fund	**52,556**	**54,213**	**1,657**	**3.2%**	**57,002**	**2,789**	**5.1%**
Taxes	36,997	39,162	2,165	5.9%	42,022	2,860	7.3%
Miscellaneous Receipts	3,888	3,083	(805)	-20.7%	3,088	5	0.2%
Federal Grants	71	60	(11)	-15.5%	60	0	0.0%
Transfers	11,600	11,908	308	2.7%	11,832	(76)	-0.6%
State Funds	**81,150**	**84,441**	**3,291**	**4.1%**	**88,610**	**4,169**	**4.9%**
Taxes	57,668	60,762	3,094	5.4%	64,784	4,022	6.6%
Miscellaneous Receipts	23,397	23,552	155	0.7%	23,681	129	0.5%
Federal Grants	85	127	42	49.4%	145	18	14.2%
All Funds	**126,748**	**134,596**	**7,848**	**6.2%**	**132,871**	**(1,725)**	**-1.3%**
Taxes	57,668	60,762	3,094	5.4%	64,784	4,022	6.6%
Miscellaneous Receipts	23,557	23,736	179	0.8%	23,816	80	0.3%
Federal Grants	45,523	50,098	4,575	10.0%	44,271	(5,827)	-11.6%

FISCAL YEAR 2010-11 OVERVIEW

- Total All Funds receipts are estimated to reach $134.6 billion, an increase of $7.8 billion, or 6.2 percent from 2009-10 results. All Funds tax receipts are estimated to increase by $3.1 billion, or 5.4 percent. The majority of the increase in tax receipts is attributable to growth in personal income tax, sales tax, and cigarette and tobacco tax collections.

- All Funds miscellaneous receipts are projected to reach $23.7 billion in 2010-11, an increase of $179 million from 2009-10. General Fund miscellaneous receipts reductions of $805 million are more than offset by growth in other areas, primarily SUNY revenue growth from expansions at the three SUNY teaching hospitals, enrollment growth, and greater bond proceeds available for SUNY capital projects ($507 million), and increased lottery fund receipts which reflect the one-time receipt of the franchise fee for rights to develop a VLT facility at Aqueduct ($380 million).

- Total State Funds receipts are estimated to reach over $84.4 billion in 2010-11, an increase of $3.3 billion, or 4.1 percent.

- Total General Fund receipts are estimated at $54.2 billion, an increase of nearly $1.7 billion, or 3.2 percent from 2009-10 results. General Fund tax receipts are estimated to increase by 5.9 percent, reflecting the modest economic recovery, full year compliance with the personal income tax surcharge, and the temporary elimination of the sales tax clothing exemption. General Fund miscellaneous receipts are estimated to decrease by 20.7 percent, reflecting the loss of several one-time receipts in 2009-10.

- Base tax receipts growth, which nets out the impact of law changes, will increase by an estimated 2.1 percent in 2010-11 after a base decline of 12.3 percent in 2009-10. The rebound in economic activity is estimated to increase base growth in tax receipts for the first time since 2007-08.

FISCAL YEAR 2011-12 OVERVIEW

- Total All Funds receipts are projected to reach $132.9 billion, a decrease of $1.7 billion, or 1.3 percent from 2010-11 estimates reflecting the significant loss in Federal grants. All Funds tax receipts are projected to grow by just over $4.0 billion or 6.6 percent. This increase is attributable to the full year impact of the economic recovery, legislation enacted in 2010 and positive revenue actions proposed with this Budget. All Funds Miscellaneous receipts are projected to increase by $80 million, or 0.3 percent. All Funds Federal grants are expected to decrease by $5.8 billion, or 11.6 percent.

- Total State Funds receipts are projected to be $88.6 billion, an increase of $4.2 billion, or 4.9 percent from the 2010-11 estimate.

- Total General Fund receipts are projected to be $57.0 billion, an increase of $2.8 billion, or 5.1 percent from 2010-11 estimates. General Fund tax receipts are projected to grow by 7.3 percent, while General Fund miscellaneous receipts are projected to grow by 0.2 percent. Federal grants revenues are projected to remain constant.

- After controlling for the impact of policy changes, base tax revenue growth is estimated to increase by 7.5 percent for fiscal year 2011-12.

Change from Mid-Year Update

Revised Estimates and Projections

CHANGE FROM MID-YEAR UPDATE FORECAST
(millions of dollars)

	2010-11				2011-12			
	Mid-Year Update	Executive Budget	$ Change	% Change	Mid-Year Update	Executive Budget	$ Change	% Change
General Fund[1]	**42,620**	**42,305**	**(315)**	**-0.7%**	**45,396**	**45,170**	**(226)**	**-0.5%**
Taxes	39,699	39,162	(537)	-1.4%	42,515	42,022	(493)	-1.2%
Miscellaneous Receipts	2,861	3,083	222	7.8%	2,821	3,088	267	9.5%
Federal Grants	60	60	0	0.0%	60	60	0	0.0%
State Funds	**84,609**	**84,441**	**(168)**	**-0.2%**	**88,387**	**88,610**	**223**	**0.3%**
Taxes	61,453	60,762	(691)	-1.1%	65,516	64,784	(732)	-1.1%
Miscellaneous Receipts	23,031	23,552	521	2.3%	22,734	23,681	947	4.2%
Federal Grants	125	127	2	1.6%	137	145	8	5.8%
All Funds	**135,236**	**134,596**	**(640)**	**-0.5%**	**134,667**	**132,871**	**(1,796)**	**-1.3%**
Taxes	61,453	60,762	(691)	-1.1%	65,516	64,784	(732)	-1.1%
Miscellaneous Receipts	23,218	23,736	518	2.2%	22,871	23,816	945	4.1%
Federal Grants	50,565	50,098	(467)	-0.9%	46,280	44,271	(2,009)	-4.3%

[1] Excludes Transfers

- All Funds receipts estimates have been revised downward by $640 million for fiscal year 2010-11 from the Mid-Year Financial Plan Update. The downward tax revision of $691 million is mostly due to weaker than expected personal income and business tax receipts.

- All Funds miscellaneous receipts were revised upward by $518 million largely reflecting increased projections for 18-A public utility assessments ($266 million) and SUNY dormitory fees ($116 million).

- Federal grants help pay for State spending on Medicaid, temporary and disability assistance, mental hygiene, school aid, public health, and other activities. Annual changes to Federal grants generally correspond to changes in federally-reimbursed spending. Accordingly, DOB typically plans that Federal reimbursement will be received in the State fiscal year in which spending occurs, but timing is often unpredictable. All Funds Federal grants were revised downward by $467 million from Mid-Year estimates driven by revisions to assumed spending patterns for educational programs funded by Federal ARRA monies and the Federal Jobs Fund program.

- General Fund receipts for fiscal year 2010-11 have been revised downward by $315 million, reflecting weaker than expected personal income and business tax collections to date.

- All Funds receipts estimates have been reduced by nearly $1.8 billion for fiscal year 2011-12 from the Mid-Year Financial Plan Update.

- General Fund receipts for fiscal year 2011-12 have been revised downward by $226 million. Tax revisions account for a decrease of $493 million, while miscellaneous receipts increase by $267 million.

Proposed Law Changes

The 2011-12 Executive Budget includes changes to tax law that would:

- close a single tax loophole to improve the equity of the tax code; and

- generate additional recurring revenues without increasing taxes to help close the State’s financial gaps in 2011-12 and beyond.

ALL FUNDS LEGISLATION
($ in millions)

	2011-12	2012-13	2013-14	2014-15
Revenue Enhancements	**382**	**426**	**426**	**426**
Personal Income Tax	**5**	**10**	**10**	**10**
Offset Certain Tax Debts Against Lottery Winnings	5	10	10	10
Business Taxes	**22**	**16**	**16**	**16**
Repeal exemption for large cooperative insurance companies	22	16	16	16
Other Taxes/Lottery	**155**	**200**	**200**	**200**
Provide free-play allowance to all tracks	38	38	38	38
Remove location restrictions on QuickDraw	10	44	44	44
Increase the number of 75 percent instant games	4	4	4	4
Multi-State Progressive Video Lottery Games	2	3	3	3
Various Lottery Sales Efficiency Actions (Administrative)	100	109	109	109
Expand Lottery prepaid subscription sales to other jackpot games (Administrative)	1	2	2	2
Improve Compliance Through Tax Modernization Initiatives	**200**	**200**	**200**	**200**
Tax Reductions	**(6)**	**(3)**	**0**	**0**
Expand the Low Income Housing Tax Credit Program	0	0	0	0
Extend Financial Services ITC for one year	0	0	0	0
Reform Excelsior Jobs Program	0	0	0	0
Extend the alternative fuels tax exemption for one year	0	0	0	0
Reform and extend the Power for Jobs Program for two years*	(6)	(3)	0	0
Pari-Mutuel Extender	0	0	0	0
Total All Funds Legislation Change	**376**	**423**	**426**	**426**

*Tax Law impacts only. Excludes NYPA reimbursement.

PERSONAL INCOME TAX

- make permanent tax shelter reporting provisions that are set to expire on July 1, 2011;

- make technical corrections to the Empire Zones program to grant the Department of Economic Development (DED) the authority to continue to monitor Empire Zone Program compliance and to decertify non-complying businesses;

- extend the financial services investment tax credit through October 1, 2015;

- provide the Commissioner of the Division of Housing and Community Renewal (DHCR) authorization to allocate an additional $4 million in low income housing tax credits;

- reform and improve the job creating effectiveness of the Excelsior economic development program;

- expand e-filing requirements as a part of the Tax Modernization Project; and

- improve tax collection by offsetting tax debts against large Lottery winnings.

USER TAXES AND FEES

- improve sales tax compliance as part of the Tax Modernization Project; and

- extend for one year the full or partial tax exemptions on E85, CNG, hydrogen and B20 when purchased for use in a motor vehicle engine.

BUSINESS TAXES

- make permanent tax shelter reporting provisions that are set to expire on July 1, 2011;
- make technical corrections to the Empire Zones program to grant the Department of Economic Development (DED) the authority to continue to monitor Empire Zone Program compliance and to decertify non-complying businesses;
- extend the financial services investment tax credit through October 1, 2015;
- provide the Commissioner of the Division of Housing and Community Renewal (DHCR) authorization to allocate an additional $4 million in low income housing tax credits;
- reform and improve the job creating effectiveness of the Excelsior economic development program;
- conform the New York State Insurance and Tax Laws to the federal Dodd-Frank Act excess lines tax provisions and authorize New York State to participate in a national compact that collects and remits excess lines taxes to the states;
- eliminate a tax exemption for any large cooperative insurers receiving $25 million or more in annual premiums;
- extend Gramm-Leach Bliley provisions for two years and make related bank tax provisions permanent; and
- reform and extend the Power for Jobs program for two additional years.

OTHER ACTIONS

- reduce the dormancy period on fourteen abandoned property items from five or six years to three;
- modernize certain fuel definitions to conform with changes in Federal and State law, and conform the enforcement provisions for highway use diesel fuel with those currently applied to motor fuel;
- Extend certain pari-mutuel tax rates and authorization for account wagering for a period of one year;
- authorize a program at Video Lottery Gaming facilities that would provide a free-play allowance of up to 10 percent of net machine income at each facility;

- eliminate restrictions on the Quick Draw game related to the size of establishments and food sales;

- authorize the Lottery to introduce five 75 percent prize-payout instant games each fiscal year;

- authorize the Lottery to participate in multi-jurisdictional, progressive jackpot video lottery games;

- authorize a prize-payout in excess of 50 percent on multi-jurisdictional lottery games when two-thirds of participating lottery jurisdictions have agreed to a prize-payout in excess of 50 percent;

- increase Lottery sales efficiency by: expanding the Lottery sales force to reduce the ratio of retailers to marketing representatives; expanding the Lottery retailer base through recruitment of corporate chain stores; and implementing a "Megaplier" add-on feature to the Mega Millions game; and

- expand Lottery prepaid subscription sales to other jackpot games.

FISCAL YEARS 2012-13, 2013-14, AND 2014-15 OVERVIEW

TOTAL RECEIPTS
(millions of dollars)

	2011-12 Projected	2012-13 Projected	Annual $ Change	2013-14 Projected	Annual $ Change	2014-15 Projected	Annual $ Change
General Fund	**57,002**	**57,138**	**136**	**59,493**	**2,355**	**60,623**	**1,130**
Taxes	42,022	42,679	657	44,862	2,183	45,898	1,036
State Funds	**88,610**	**89,463**	**853**	**92,557**	**3,094**	**94,194**	**1,637**
Taxes	64,784	65,903	1,119	69,203	3,300	71,248	2,045
All Funds	**132,871**	**129,880**	**(2,991)**	**134,826**	**4,946**	**141,669**	**6,843**
Taxes	64,784	65,903	1,119	69,203	3,300	71,248	2,045

Overall, tax receipts growth in the three fiscal years following 2011-12 is expected to remain in the range of 1.7 percent to 5.0 percent. This is consistent with projected modest economic growth in the New York economy during this period. Receipts growth is supported by modest proposals contained with this Budget that eliminate a single tax loophole and improve taxpayer compliance. These factors are expected to continue to enhance expected receipt growth through 2014-15.

- Total All Funds receipts in 2012-13 are projected to be $129.9 billion, a decrease of $3.0 billion over the prior year. All Funds receipts in 2013-14 are expected to increase by over $4.9 billion over 2012-13 projections. In 2014-15, receipts are expected to increase by nearly $6.8 billion over 2013-14 projections.

- Total State Funds receipts are projected to be nearly $89.5 billion in 2012-13, close to $92.6 billion in 2013-14 and nearly $94.2 billion in 2014-15.

- Total General Fund receipts are projected to reach just over $57.1 billion in 2012-13, nearly $59.5 billion in 2013-14 and $60.6 billion in 2014-15.

- All Funds tax receipts are expected to increase by 1.7 percent in 2012-13, 5.0 percent in 2013-14 and 3.0 percent in 2014-15. Again, the growth pattern is consistent with an economic forecast for continued but slower economic growth.

Base Growth

Base growth, adjusted for law changes, in tax receipts for fiscal year 2010-11 is estimated to grow 2.1 percent and 7.5 percent in 2011-12. Overall base growth in tax receipts is dependent on a multitude of factors.

The estimated return to positive base receipts growth in 2010-11 results from:

- full year growth in employment and wages;
- strong corporate profits growth;
- positive capital gains from a resurgent stock market; and
- an end to consumption declines.

The acceleration in base growth in 2011-12 results from:

- a second consecutive year of corporate profits growth; and
- a return to historical trend growth in consumption and income.

Personal Income Tax

PERSONAL INCOME TAX
(millions of dollars)

	2009-10 Actual	2010-11 Estimated	Annual $ Change	Annual % Change	2011-12 Projected	Annual $ Change	Annual % Change
General Fund[1]	**22,654**	**23,624**	**970**	**4.3%**	**25,588**	**1,964**	**8.3%**
Gross Collections	41,393	43,585	2,192	5.3%	46,021	2,436	5.6%
Refunds/Offsets	(6,642)	(7,686)	(1,044)	15.7%	(7,512)	174	-2.3%
STAR	(3,409)	(3,300)	109	-3.2%	(3,293)	7	-0.2%
RBTF	(8,688)	(8,975)	(287)	3.3%	(9,628)	(653)	7.3%
State/All Funds	**34,751**	**35,899**	**1,148**	**3.3%**	**38,509**	**2,610**	**7.3%**
Gross Collections	41,393	43,585	2,192	5.3%	46,021	2,436	5.6%
Refunds	(6,642)	(7,686)	(1,044)	15.7%	(7,512)	174	-2.3%

[1] Excludes Transfers.

All Funds personal income tax receipts for 2010-11, which reflect the net of gross payments minus refunds, are estimated at $35.9 billion, an increase of $1.1 billion (3.3 percent) from the prior year. This increase is primarily the result of gradual improvement in the economy and full year compliance with the temporary tax rate increase, partially offset by a shift in refunds of $500 million from 2009-10 to 2010-11.

Withholding is estimated to increase by $1.3 billion (4.5 percent) due to full year compliance with the rate increase and modest improvement in the wage growth rate to 3.5 percent in 2010-11 from negative 1.5 percent in the prior year. Similarly, total estimated payments are estimated to increase by $723 million (8.0 percent). Estimated payments for tax year 2010 are estimated to increase by $406 million reflecting full year compliance with the temporary rate increase and the estimated increase of 8.9 percent in non-wage income. Extension payments for tax year 2009 are estimated to increase by $317 million (15.2 percent) largely reflecting the "catch up" by many high income taxpayers with their full increased tax rate liability. Similarly, payments with final returns for tax year 2009 are estimated to increase by $133 million reflecting the “catch up” payments. Total refunds are estimated to rise by $1 billion (15.7 percent), mainly reflecting the refund shift noted above plus an expected but large increase in prior refunds of $271 million, or 58 percent.

The following table summarizes, by component, actual receipts for 2009-10 and forecast amounts through 2014-15.

PERSONAL INCOME TAX FISCAL YEAR COLLECTION COMPONENTS
ALL FUNDS
(millions of dollars)

	2009-10	**2010-11**	**2011-12**	**2012-13**	**2013-14**
	Actual	**Estimated**	**Projected**	**Projected**	**Projected**
Receipts					
Withholding	29,443	30,776	31,802	32,256	34,435
Estimated Payments	9,028	9,751	10,925	11,028	11,110
Current Year	6,938	7,344	8,180	7,955	8,256
Prior Year*	2,090	2,407	2,745	3,074	2,854
Final Returns	1,822	1,967	2,190	2,293	2,291
Current Year	206	207	207	207	221
Prior Year*	1,616	1,760	1,983	2,086	2,070
Delinquent	1,100	1,091	1,104	1,149	1,226
Gross Receipts	41,393	43,585	46,021	46,726	49,062
Refunds					
Prior Year*	4,986	5,149	4,895	5,335	5,531
Previous Years	468	739	819	769	711
Current Year*	1,250	1,750	1,750	1,750	1,750
State-City Offset*	-62	48	48	48	48
Total Refunds	6,642	7,686	7,512	7,902	8,040
Net Receipts	34,751	35,899	38,509	38,824	41,022

* These components, collectively, are known as the “settlement” on the prior year’s tax liability.

All Funds receipts for 2011-12 are projected to be $38,509 million, an increase of $2.6 billion, or 7.3 percent above 2010-11. This mainly reflects increases resulting from a combination of steady improvement in the financial markets and the economy, a higher refunds base due to the refund shift noted above and the legislative proposal intended to increase voluntary compliance by expanding requirements for e-filing ($157 million).

Gross receipts are projected to grow 5.6 percent and reflect total estimated payments growth of 12 percent ($1.2 billion) and modest withholding growth of 3.3 percent ($1 billion). Withholding receipts growth reflects moderate overall wage growth of 4.2 percent suppressed by expiration of the temporary rate increase at the end of December 2011. Estimated payments on 2011 income are projected to grow 11.4 percent ($836 million), which in part reflects improvements in the financial market and the overall economy. Extension and final payments related to 2010 returns are expected to increase by $572 million, or 13.8 percent from 2009.

Total refunds for 2011-12 are projected to decrease by $174 million (2.3 percent). This decrease largely reflects a higher base due to the shift of the $500 million of fiscal year 2009-10 refunds into fiscal year 2010-11.

General Fund income tax receipts are net of deposits to the STAR Fund, which provides property tax relief, and the RBTF, which supports debt service payments on State personal income tax revenue bonds. General Fund income tax receipts for 2010-11 of $23.6 billion are expected to increase by $970 million, or 4.3 percent, from the prior year, mainly reflecting the increase in All Funds receipts noted above, along with the impact of legislation to generate STAR program savings. However, a $287 million increase in deposits to the RBTF partially offsets this decline.

General Fund income tax receipts for 2011-12 of $25.6 billion are projected to rise by almost $2 billion or 8.3 percent over the prior year. Along with the increase in All Funds receipts noted above, the STAR transfer is expected to decline by a modest $7.4 million while deposits to the RBTF are expected to increase by $653 million (7.3 percent), the same percentage increase as projected for net collections since the transfer equals 25 percent of net collections.

PERSONAL INCOME TAX CHANGE FROM MID-YEAR UPDATE FORECAST
(millions of dollars)

	2010-11				2011-12			
	Mid-Year Update	Executive Budget	$ Change	% Change	Mid-Year Update	Executive Budget	$ Change	% Change
General Fund[1]	**24,147**	**23,624**	**(523)**	**-2.2%**	**26,039**	**25,588**	**(451)**	**-1.7%**
Gross Collections	44,786	43,585	(1,201)	-2.7%	47,029	46,021	(1,008)	-2.1%
Refunds/Offsets	(8,189)	(7,686)	503	-6.1%	(7,752)	(7,512)	240	-3.1%
STAR	(3,300)	(3,300)	0	0.0%	(3,418)	(3,293)	125	-3.7%
RBTF	(9,150)	(8,975)	175	-1.9%	(9,820)	(9,628)	192	-2.0%
State/All Funds	**36,597**	**35,899**	**(698)**	**-1.9%**	**39,277**	**38,509**	**(768)**	**-2.0%**
Gross Collections	44,786	43,585	(1,201)	-2.7%	47,029	46,021	(1,008)	-2.1%
Refunds	(8,189)	(7,686)	503	-6.1%	(7,752)	(7,512)	240	-3.1%

[1] Excludes Transfers

Compared to the Mid-Year Update, 2010-11 All Funds income tax receipts are revised downward by $698 million. The decrease primarily reflects lower estimated payments on tax year 2010 income of $600 million, $525 million in lower-than-expected withholding, lower assessments of $70 million, and $100 million in higher prior year refunds. The $1.1 billion downward revision in estimated payments and withholdings reflects almost entirely the actual receipts shortfall experienced in December 2010 and January 2011. These decreases are partially offset by lower tax year 2009 refunds of $353 million and $250 million in savings from state-city offsets.

Compared to the Mid-Year Update, 2011-12 All Funds income tax receipts are revised downward by $768 million with $930 million in lower re-estimates partially offset by $162 million in legislative proposals. The re-estimates reflect lower withholding ($500 million), extension payments and final returns payments on tax year 2010 income ($470 million), $180 million in prior refunds and a $100 million decrease in assessments. These increases are partially offset by a $250 million downward re-estimate in the state-city offset. Proposed tax modernization legislation to increase voluntary compliance by expanding e-filing would reduce current refunds by $100 million and increase final payments by $57 million. Legislation to improve tax collection by offsetting tax debts against large New York Lottery winnings would increase assessments by $5 million.

PERSONAL INCOME TAX
(millions of dollars)

	2011-12 Projected	2012-13 Projected	Annual $ Change	2013-14 Projected	Annual $ Change	2014-15 Projected	Annual $ Change
General Fund[1]	**25,588**	**25,796**	**208**	**27,256**	**1,460**	**28,404**	**1,148**
Gross Collections	46,021	46,726	705	49,062	2,336	51,674	2,612
Refunds/Offsets	(7,512)	(7,902)	(390)	(8,040)	(138)	(8,877)	(837)
STAR	(3,293)	(3,322)	(29)	(3,510)	(188)	(3,693)	(183)
RBTF	(9,628)	(9,706)	(78)	(10,256)	(550)	(10,700)	(444)
State/All Funds	**38,509**	**38,824**	**315**	**41,022**	**2,198**	**42,797**	**1,775**
Gross Collections	46,021	46,726	705	49,062	2,336	51,674	2,612
Refunds	(7,512)	(7,902)	(390)	(8,040)	(138)	(8,877)	(837)

[1] Excludes Transfers.

All Funds income tax receipts for 2012-13 of $38.8 billion are projected to increase $315 million or 0.8 percent over the prior year. Gross receipts are projected to increase 1.5 percent and reflect withholding that is projected to grow by 1.4 percent or $454 million. The modest growth rate is due to the expiration of the temporary tax rate increase after 2011. Total estimated taxes on prior and current year liabilities are expected to grow by only 0.9 percent, with a $329 million (12 percent) increase in extensions on tax year 2011 returns offset by a $225 million (2.8 percent) decline in estimated payments for tax year 2012, the latter reflecting the expiration of the temporary rate increase as noted above. Payments from final returns are expected to increase 4.7 percent ($103 million) reflecting the moderate income growth in tax year 2011. Delinquencies are projected to increase $45 million or 4 percent over the prior year while total refunds are projected to increase by $390 million or 5.2 percent over the prior year.

General Fund income tax receipts for 2012-13 of $25.8 billion are projected to increase by $208 million, or 0.8 percent. Along with the increases in the All Funds forecast, this reflects a $29 million decrease in STAR payments partially offset by a $78 million increase in RBFT deposits.

All Funds income tax receipts are projected to increase by $2.2 billion or 5.7 percent in 2013-14 and $1.8 billion or 4.3 percent in 2014-15. General Fund receipts are projected at $27.3 billion and $28.4 billion, respectively.

User Taxes and Fees

USER TAXES AND FEES
(millions of dollars)

	2009-10 Actual	2010-11 Estimated	Annual $ Change	Annual % Change	2011-12 Projected	Annual $ Change	Annual % Change
General Fund[1,2]	**8,087**	**8,775**	**688**	**8.5%**	**9,153**	**378**	**4.3%**
Sales Tax	7,405	8,063	658	8.9%	8,406	343	4.3%
Cigarette and Tobacco Taxes	456	484	28	6.1%	514	30	6.2%
Alcoholic Beverage Taxes	226	228	2	0.9%	233	5	2.2%
State/All Funds	**12,852**	**14,183**	**1,331**	**10.4%**	**14,810**	**627**	**4.4%**
Sales Tax	10,527	11,513	986	9.4%	11,950	437	3.8%
Cigarette and Tobacco Taxes	1,366	1,621	255	18.7%	1,786	165	10.2%
Motor Fuel Tax	507	516	9	1.8%	518	2	0.4%
Highway Use Tax	137	129	(8)	-5.8%	140	11	8.5%
Alcoholic Beverage Taxes	226	228	2	0.9%	233	5	2.2%
Taxicab Surcharge	13	81	68	523.1%	81	0	0.0%
Auto Rental Tax	76	95	19	25.0%	102	7	7.4%

[1] Excludes Transfers.

[2] Receipts from motor vehicle fees and alcohol beverage control license fees are now reflected under miscellaneous receipts.

All Funds user taxes and fees receipts for 2010-11 are estimated to be $14.2 billion, an increase of $1.3 billion or 10.3 percent from 2009-10. Sales tax receipts are expected to increase by $984 million, or 9.3 percent from the prior year due to base growth (i.e. absent law changes) of 6.1 percent and the elimination of the clothing exemption. The remaining estimated increase of $345 million from 2009-10 is mainly from an increase in cigarette and tobacco tax collections due to law changes, and the full implementation of the taxicab surcharge and auto rental tax in the MTA region.

General Fund user taxes and fees receipts are expected to total $8.8 billion in 2010-11, an increase of $688 million or 8.5 percent from 2009-10. The increase largely reflects an increase in sales tax receipts ($658 million) and an increase in cigarette and tobacco tax collections ($28 million).

All Funds user taxes and fees receipts for 2011-12 are projected to be $14.8 billion, an increase of $629 million, or 4.4 percent from 2010-11. The increase in sales tax receipts of $439 million reflects sales tax base growth of 5.2 percent, a partial return of the clothing exemption (at $55 per item) and receipts of $43 million from implementation of the Tax Modernization Project. General Fund user taxes and fees receipts are projected to total $9.2 billion in 2011-12, an increase of $378 million, or 4.3 percent from 2010-11. This increase largely reflects projected increases in sales tax receipts and cigarette and tobacco tax receipts.

USER TAXES AND FEES CHANGE FROM MID-YEAR UPDATE FORECAST
(millions of dollars)

	2010-11				2011-12			
	Mid-Year Update	Executive Budget	$ Change	% Change	Mid-Year Update	Executive Budget	$ Change	% Change
General Fund[1,2]	**8,735**	**8,775**	**40**	**0.5%**	**9,035**	**9,153**	**118**	**1.3%**
Sales Tax	8,022	8,063	41	0.5%	8,280	8,406	126	1.5%
Cigarette and Tobacco Taxes	485	484	(1)	-0.2%	522	514	(8)	-1.5%
Alcoholic Beverage Taxes	228	228	0	0.0%	233	233	0	0.0%
State/All Funds	**14,100**	**14,183**	**83**	**0.6%**	**14,655**	**14,810**	**155**	**1.1%**
Sales Tax	11,395	11,513	118	1.0%	11,765	11,950	185	1.6%
Cigarette and Tobacco Taxes	1,652	1,621	(31)	-1.9%	1,821	1,786	(35)	-1.9%
Motor Fuel Tax	511	516	5	1.0%	513	518	5	1.0%
Highway Use Tax	134	129	(5)	-3.7%	140	140	0	0.0%
Alcoholic Beverage Taxes	228	228	0	0.0%	233	233	0	0.0%
Taxicab Surcharge	85	81	(4)	-4.7%	85	81	(4)	-4.7%
Auto Rental Tax	95	95	0	0.0%	98	102	4	4.1%

[1] Excludes Transfers

[2] Receipts from motor vehicle fees and alcohol beverage control license fees are now reflected under miscellaneous receipts.

All Funds user taxes and fees in 2010-11 are revised up by $83 million from the Mid-Year Update based on stronger than expected to-date sales tax receipts partially offset by a cigarette tax receipts shortfall. All Funds user taxes and fees are revised up by $155 million for 2011-12, which includes the improvement from 2010-11 base receipts and $43 million from items proposed with this Budget.

USER TAXES AND FEES
(millions of dollars)

	2011-12 Projected	2012-13 Projected	Annual $ Change	2013-14 Projected	Annual $ Change	2014-15 Projected	Annual $ Change
General Fund[1,2]	**9,153**	**9,386**	**233**	**9,754**	**368**	**10,113**	**359**
Sales Tax	8,406	8,635	229	9,006	371	9,366	360
Cigarette and Tobacco Taxes	514	513	(1)	506	(7)	500	(6)
Alcoholic Beverage Taxes	233	238	5	242	4	247	5
State/All Funds	**14,810**	**15,145**	**335**	**15,651**	**506**	**16,148**	**497**
Sales Tax	11,950	12,283	333	12,808	525	13,318	510
Cigarette and Tobacco Taxes	1,786	1,767	(19)	1,738	(29)	1,710	(28)
Motor Fuel Tax	518	521	3	523	2	525	2
Highway Use Tax	140	148	8	147	(1)	150	3
Alcoholic Beverage Taxes	233	238	5	242	4	247	5
Taxicab Surcharge	81	81	0	81	0	81	0
Auto Rental Tax	102	107	5	112	5	117	5

[1] Excludes Transfers.

[2] Receipts from motor vehicle fees and alcohol beverage control license fees are now reflected under miscellaneous receipts.

All Funds user taxes and fees in 2012-13 are projected to increase by $335 million and then increase by $506 million in 2013-14 and $497 million in 2014-15.

Business Taxes

BUSINESS TAXES
(millions of dollars)

	2009-10 Actual	2010-11 Estimated	Annual $ Change	Annual % Change	2011-12 Projected	Annual $ Change	Annual % Change
General Fund	**5,371**	**5,664**	**293**	**5.5%**	**6,251**	**587**	**10.4%**
Corporate Franchise Tax	2,145	2,848	703	32.8%	3,157	309	10.8%
Corporation & Utilities Tax	722	634	(88)	-12.2%	681	47	7.4%
Insurance Tax	1,331	1,191	(140)	-10.5%	1,266	75	6.3%
Bank Tax	1,173	991	(182)	-15.5%	1,147	156	15.7%
State/All Funds	**7,459**	**7,673**	**214**	**2.9%**	**8,378**	**705**	**9.2%**
Corporate Franchise Tax	2,511	3,270	759	30.2%	3,636	366	11.2%
Corporation & Utilities Tax	954	836	(118)	-12.4%	892	56	6.7%
Insurance Tax	1,491	1,308	(183)	-12.3%	1,392	84	6.4%
Bank Tax	1,399	1,184	(215)	-15.4%	1,342	158	13.3%
Petroleum Business Tax	1,104	1,075	(29)	-2.6%	1,116	41	3.8%

All Funds business tax receipts for 2010-11 are estimated at nearly $7.7 billion, an increase of $214 million, or 2.9 percent from the prior year. The large increase in corporate franchise tax receipts in 2010-11 is partially offset by smaller decreases in receipts from the other business taxes.

All Funds corporate franchise tax receipts are estimated to be $3,270 million, an increase of $759 million, or 30.2 percent from 2009-10. The year-to-year increase is primarily due to an increase in corporate profit growth for calendar year 2010 of 28.8 percent. Both estimated payments from calendar year filers and audit receipts are expected to be higher than in 2009-10. Estimated payments from calendar year 2010 filers are expected to increase 14 percent from the prior year while audit receipts are estimated to increase by nearly $200 million, or 28.4 percent.

All Funds corporation and utilities receipts for 2010-11 are estimated to be $836 million, a decrease of $118 million, or 12.4 percent below last year. This decrease is driven by a tax tribunal settlement refund ($37 million) as well as the March 2010 prepayment increase ($52 million) that accelerated payments into 2009-10 from 2010-11. After accounting for these one-time items, underlying base growth is expected to decrease by 3 percent.

All Funds insurance taxes receipts for 2010-11 are estimated to be $1,308 million, a decrease of $183 million, or 12.3 percent below last year. This decrease is mainly attributed to lower December estimated payments on current year liability. Current year liability payments in December are estimated to be 23.2 percent lower than the prior year, an unexpected decline because payments through September grew 7.3 percent. Industry data indicate that property and casualty premiums have been in decline since 2006 with commercial lines experiencing the most significant declines, possibly even shrinking in 2010. Other information also suggests that policyholders pared back their coverage to minimum requirements during the economic downturn.

All Funds bank tax receipts for 2010-11 are estimated to be $1,184 million, a decrease of $215 million, or 15.4 percent below last year. This is largely attributable to refunds that were delayed from 2009-10 to 2010-11. Absent the management of refunds, the decline from 2009-10 would be 4.2 percent. Audits are estimated to decline $66 million, or 22.9 percent, from the prior year while gross collections less audits are estimated to be flat compared to 2009-10.

General Fund business tax receipts for 2010-11 of nearly $5.7 billion are estimated to increase by $293 million, or 5.5 percent from 2009-10. Business tax receipts deposited to the General Fund reflect the All Funds trends discussed above.

ALL FUNDS BUSINESS TAX AUDIT AND NON-AUDIT RECEIPTS
(millions of dollars)

	2007-08 Actual	2008-09 Actual	2009-10 Actual	2010-11 Estimated	2011-12 Projected
Corporate Franchise Tax	**3,998**	**3,220**	**2,511**	**3,270**	**3,636**
Audit	1,189	905	698	896	728
Non-Audit	2,808	2,315	1,813	2,374	2,908
Corporation and Utilities Taxes	**801**	**863**	**954**	**836**	**892**
Audit	35	47	52	30	54
Non-Audit	767	816	902	806	838
Insurance Taxes	**1,219**	**1,181**	**1,491**	**1,308**	**1,392**
Audit	44	41	35	25	13
Non-Audit	1,175	1,140	1,456	1,283	1,379
Bank Taxes	**1,058**	**1,233**	**1,399**	**1,184**	**1,342**
Audit	104	455	290	224	165
Non-Audit	954	778	1,109	960	1,177
Petroleum Business Taxes	**1,155**	**1,107**	**1,103**	**1,075**	**1,116**
Audit	9	16	10	6	6
Non-Audit	1,146	1,091	1,093	1,069	1,110
Total Business Taxes	**8,231**	**7,604**	**7,459**	**7,673**	**8,378**
Audit	1,381	1,464	1,085	1,181	966
Non-Audit	6,850	6,140	6,374	6,492	7,412

All Funds business tax receipts for 2011-12 of roughly $8.4 billion are projected to increase by approximately $705 million or 9.2 percent from the prior year. Corporation franchise tax receipts for 2010-11 are projected to increase by $366 million, or 11.2 percent from the previous year. Adjusting for the credit deferral, growth is estimated to be 8.1 percent. Corporate profits are projected to show year-over-year growth of 6.2 percent in calendar year 2011 compared to 28.8 percent growth in 2010. Bank tax receipts for 2011-12 are projected to increase by $158 million, or 13.3 percent from the previous year. Adjusting for the management of refunds from 2009-10 to 2010-11, growth is flat for 2011-12. Insurance taxes are forecast to increase $84 million, or 6.4 percent. The decline in insurance audit collections is offset by an increase in base receipts as the economy continues to recover. Corporation and utilities taxes are projected to grow by $56 million, or 6.7 percent. This is driven by forecasts of modest growth in the telecommunications and residential energy sector as well as an increase in audit receipts. The projected petroleum business tax increase of $41 million is due to a

5 percent increase in the petroleum price index on January 1, 2011 and a projected 5 percent increase on January 1, 2012.

General Fund business tax receipts for 2011-12 of nearly $6.3 billion are projected to increase $587 million, or 10.4 percent from the prior year. Business tax receipts deposited to the General Fund reflect the All Funds trends discussed above.

BUSINESS TAXES CHANGE FROM MID-YEAR UPDATE FORECAST
(millions of dollars)

	2010-11				2011-12			
	Mid-Year Update	Executive Budget	$ Change	% Change	Mid-Year Update	Executive Budget	$ Change	% Change
General Fund	**5,783**	**5,664**	**(119)**	**-2.1%**	**6,452**	**6,251**	**(201)**	**-3.1%**
Corporate Franchise Tax	2,886	2,848	(38)	-1.3%	3,234	3,157	(77)	-2.4%
Corporation & Utilities Tax	665	634	(31)	-4.7%	743	681	(62)	-8.3%
Insurance Tax	1,278	1,191	(87)	-6.8%	1,335	1,266	(69)	-5.2%
Bank Tax	954	991	37	3.9%	1,140	1,147	7	0.6%
State/All Funds	**7,817**	**7,673**	**(144)**	**-1.8%**	**8,571**	**8,378**	**(193)**	**-2.3%**
Corporate Franchise Tax	3,317	3,270	(47)	-1.4%	3,705	3,636	(69)	-1.9%
Corporation & Utilities Tax	879	836	(43)	-4.9%	966	892	(74)	-7.7%
Insurance Tax	1,410	1,308	(102)	-7.2%	1,470	1,392	(78)	-5.3%
Bank Tax	1,141	1,184	43	3.8%	1,334	1,342	8	0.6%
Petroleum Business Tax	1,070	1,075	5	0.5%	1,096	1,116	20	1.8%

Compared to the Mid-Year Update, 2010-11 All Funds business tax receipts are estimated to decrease $144 million, or 1.8 percent. The decrease in tax receipts is the result of the sharp decline in insurance current year liability as well as a year-to-date shortfall in corporate franchise tax receipts. The decrease in the corporation and utilities tax is offset by an increase in the bank tax.

All Funds business tax receipts for 2011-12 are nearly $8.4 billion, or $193 million (2.3 percent) below the Mid-Year Update. The decrease reflects a reduction in the insurance tax, corporate franchise tax and corporation and utilities tax estimates. Changes to the bank tax and the petroleum business tax estimates are modest.

BUSINESS TAXES
(millions of dollars)

	2011-12 Projected	2012-13 Projected	Annual $ Change	2013-14 Projected	Annual $ Change	2014-15 Projected	Annual $ Change
General Fund	**6,251**	**6,422**	**171**	**6,717**	**295**	**6,186**	**(531)**
Corporate Franchise Tax	3,157	3,144	(13)	3,290	146	2,607	(683)
Corporation & Utilities Tax	681	750	69	780	30	803	23
Insurance Tax	1,266	1,318	52	1,376	58	1,438	62
Bank Tax	1,147	1,210	63	1,271	61	1,338	67
State/All Funds	**8,378**	**8,638**	**260**	**8,990**	**352**	**8,547**	**(443)**
Corporate Franchise Tax	3,636	3,659	23	3,837	178	3,199	(638)
Corporation & Utilities Tax	892	964	72	998	34	1,024	26
Insurance Tax	1,392	1,449	57	1,516	67	1,603	87
Bank Tax	1,342	1,414	72	1,483	69	1,561	78
Petroleum Business Tax	1,116	1,152	36	1,156	4	1,160	4

All Funds business tax receipts for 2012-13, 2013-14, and 2014-15 reflect trend growth that is determined, in part, by the expected level of corporate profits, the expected profitability of banks, the change in taxable insurance premiums, residential energy expenditures and the consumption of telecommunications services. Business tax receipts and accompanying growth rates are estimated to be $8.6 billion (3.1 percent) in 2012-13, $9.0 billion (4.0 percent) in 2013-14, and decline to $8.5 billion (-4.9 percent) in 2014-15. The decline in 2014-15 reflects the first year of the credit deferral payback to taxpayers. General Fund business tax receipts will reflect the factors outlined above, and are projected to be nearly $6.4 billion (2.7 percent) in 2012-13, $6.7 billion (4.5 percent) in 2013-14, and decline to $6.2 billion (-7.9 percent) in 2014-15.

Other Taxes

OTHER TAXES
(millions of dollars)

	2009-10 Actual	2010-11 Estimated	Annual $ Change	Annual % Change	2011-12 Projected	Annual $ Change	Annual % Change
General Fund[1]	**885**	**1,099**	**214**	**24.2%**	**1,030**	**(69)**	**-6.3%**
Estate Tax	864	1,080	216	25.0%	1,015	(65)	-6.0%
Gift Tax	2	1	(1)	-50.0%	0	(1)	0.0%
Real Property Gains Tax	(1)	0	1	-100.0%	0	0	0.0%
Pari-Mutuel Taxes	19	17	(2)	-10.5%	14	(3)	-17.6%
All Other Taxes	1	1	0	0.0%	1	0	0.0%
State/All Funds	**1,378**	**1,665**	**287**	**20.8%**	**1,650**	**(15)**	**-0.9%**
Estate Tax	864	1,080	216	25.0%	1,015	(65)	-6.0%
Gift Tax	2	1	(1)	-50.0%	0	(1)	0.0%
Real Property Gains Tax	(1)	0	1	-100.0%	0	0	0.0%
Real Estate Transfer Tax	493	566	73	14.8%	620	54	9.5%
Pari-Mutuel Taxes	19	17	(2)	-10.5%	14	(3)	-17.6%
All Other Taxes	1	1	0	0.0%	1	0	0.0%

[1] Excludes Transfers.

All Funds other tax receipts for 2010-11 are estimated to be just under $1.67 billion, up $287 million or 20.8 percent from 2009-10 receipts, reflecting increases of 14.8 percent in real estate transfer tax receipts, and 25 percent in the estate tax as a result of improving conditions in the equities, real estate and credit markets.

General Fund other tax receipts are expected to total almost $1.1 billion in fiscal year 2010-11, an increase of $214 million or 24.2 percent, due to the increases in the estate tax.

All Funds other tax receipts for 2011-12 are projected to be approximately $1.65 billion, down $15 million or 0.9 percent from 2010-11 reflecting declines in estate tax collections that are nearly offset by growth in the real estate transfer tax. General Fund other tax receipts are expected to total $1,030 million in fiscal year 2011-12, a decrease of $69 million, or 6.3 percent which is attributable to a projected decline in the estate tax due to a drop in the number and average size of payments expected in 2011-12.

OTHER TAXES CHANGE FROM MID-YEAR UPDATE FORECAST
(millions of dollars)

	2010-11				2011-12			
	Mid-Year Update	Executive Budget	$ Change	% Change	Mid-Year Update	Executive Budget	$ Change	% Change
General Fund[1]	**1,034**	**1,099**	**65**	**6.3%**	**989**	**1,030**	**41**	**4.1%**
Estate Tax	1,015	1,080	65	6.4%	970	1,015	45	4.6%
Gift Tax	0	1	1	0.0%	0	0	0	0.0%
Real Property Gains Tax	0	0	0	0.0%	0	0	0	0.0%
Pari-Mutuel Taxes	18	17	(1)	-5.6%	18	14	(4)	-22.2%
All Other Taxes	1	1	0	0.0%	1	1	0	0.0%
State/All Funds	**1,600**	**1,665**	**65**	**4.1%**	**1,570**	**1,650**	**80**	**5.1%**
Estate Tax	1,015	1,080	65	6.4%	970	1,015	45	4.6%
Gift Tax	0	1	1	0.0%	0	0	0	0.0%
Real Property Gains Tax	0	0	0	0.0%	0	0	0	0.0%
Real Estate Transfer Tax	566	566	0	0.0%	581	620	39	6.7%
Pari-Mutuel Taxes	18	17	(1)	-5.6%	18	14	(4)	-22.2%
All Other Taxes	1	1	0	0.0%	1	1	0	0.0%

[1] Excludes Transfers.

All Funds other tax receipts in 2010-11 are revised up by $65 million from the Mid-Year Update. All Funds other taxes are revised up by $80 million for 2011-12. These revisions are mainly due to improvements in real estate markets resulting in upward revisions in the real estate transfer tax ($39 million in 2011-12) and upward revisions to estate tax revenue ($65 million in 2010-11 and $45 million in 2011-12).

OTHER TAXES
(millions of dollars)

	2011-12 Projected	2012-13 Projected	Annual $ Change	2013-14 Projected	Annual $ Change	2014-15 Projected	Annual $ Change
General Fund[1]	**1,030**	**1,075**	**45**	**1,135**	**60**	**1,195**	**60**
Estate Tax	1,015	1,060	45	1,120	60	1,180	60
Gift Tax	0	0	0	0	0	0	0
Real Property Gains Tax	0	0	0	0	0	0	0
Pari-Mutuel Taxes	14	14	0	14	0	14	0
All Other Taxes	1	1	0	1	0	1	0
State/All Funds	**1,650**	**1,775**	**125**	**1,930**	**155**	**2,055**	**125**
Estate Tax	1,015	1,060	45	1,120	60	1,180	60
Gift Tax	0	0	0	0	0	0	0
Real Property Gains Tax	0	0	0	0	0	0	0
Real Estate Transfer Tax	620	700	80	795	95	860	65
Pari-Mutuel Taxes	14	14	0	14	0	14	0
All Other Taxes	1	1	0	1	0	1	0

[1] Excludes Transfers.

The 2012-13 All Funds receipts projection for other taxes of just over $1.77 billion is up $125 million or 7.6 percent from 2011-12 receipts. The forecast reflects continued increases in household net worth as well as in the value of real property transfers.

The 2013-14 All Funds receipts projection for other taxes of just over $1.9 billion is up $155 million or 8.7 percent from 2012-13 as continued growth in estate and real estate transfer tax collections is expected.

The 2014-15 All Funds receipts projection for other taxes is slightly more than $2.05 billion, up $125 million or 6.5 percent from 2013-14 receipts. Receipts from the real estate transfer tax are projected to increase, reflecting the continued rebound in residential and commercial transactions.

Miscellaneous Receipts and Federal Grants

MISCELLANEOUS RECEIPTS AND FEDERAL GRANTS
(millions of dollars)

	2009-10 Actual	2010-11 Estimated	Annual $ Change	Annual % Change	2011-12 Projected	Annual $ Change	Annual % Change
General Fund	**3,959**	**3,143**	**(816)**	**-20.6%**	**3,148**	**5**	**0.2%**
Miscellaneous Receipts[1]	3,888	3,083	(805)	-20.7%	3,088	5	0.2%
Federal Grants	71	60	(11)	-15.5%	60	0	0.0%
State Funds	**23,473**	**23,679**	**206**	**0.9%**	**23,826**	**147**	**0.6%**
Miscellaneous Receipts[1]	23,397	23,552	155	0.7%	23,681	129	0.5%
Federal Grants	85	127	42	49.4%	145	18	14.2%
All Funds	**69,080**	**73,834**	**4,754**	**6.9%**	**68,087**	**(5,747)**	**-7.8%**
Miscellaneous Receipts[1]	23,557	23,736	179	0.8%	23,816	80	0.3%
Federal Grants	45,523	50,098	4,575	10.0%	44,271	(5,827)	-11.6%

[1] Includes receipts from motor vehicle fees and alcohol beverage control license fees, previously reflected as "user taxes and fees."

All funds miscellaneous receipts include monies received from HCRA financing sources, SUNY tuition and patient income, lottery receipts for education, assessments on regulated industries, and a variety of fees and licenses. All Funds miscellaneous receipts are projected to total $23.7 billion in 2010-11, an increase of $179 million from 2009-10. General Fund reductions described below are more than offset by growth in other areas, primarily SUNY revenue growth from expansions at the three SUNY teaching hospitals ($170 million), enrollment growth, and greater bond proceeds available for SUNY capital projects ($397 million), and increased lottery fund receipts from the one-time receipt of the franchise fee for rights to operate a VLT facility at Aqueduct ($380 million).

Federal grants help pay for State spending on Medicaid, temporary and disability assistance, mental hygiene, School Aid, public health, and other activities. Annual changes to Federal grants generally correspond to changes in federally-reimbursed spending. Accordingly, DOB typically plans for Federal reimbursement to be received in the State fiscal year in which spending occurs, but timing sometimes varies. All Funds Federal grants are projected to total nearly $50.1 billion in 2010-11, an increase of $4.6 billion from 2009-10 driven by the receipt of ARRA monies.

General Fund miscellaneous receipts collections are estimated to be $3.1 billion in 2010-11, down $805 million from 2009-10 receipts. This decrease is primarily due to timing of payments and the loss of several one-time revenues. General Fund Federal grants are expected to decrease by $11 million from the prior year, due to the implementation of the Medicare Part D subsidy.

All Funds miscellaneous receipts are projected to total $23.8 billion in 2011-12, an increase of $80 million from the current year, largely driven by growth in SUNY and HCRA receipts ($255 million and $225 million, respectively) partially offset by changes in bond proceeds funding for several capital improvement projects including economic development and transportation ($115 million) and the non-recurrence of revenues received during 2010-11 for the VLT franchise fee payment ($380 million).

All Funds Federal grants are projected to total $44.3 billion in 2011-12, a decline of $5.8 billion from the current year reflecting a decrease in Federal ARRA funding.

General Fund miscellaneous receipts collections in 2011-12 are projected to remain steady at $3.1 billion.

MISCELLANEOUS RECEIPTS AND FEDERAL GRANTS: CHANGE FROM MID-YEAR UPDATE FORECAST
(millions of dollars)

	2010-11				2011-12			
	Mid-Year Update	Executive Budget	$ Change	% Change	Mid-Year Update	Executive Budget	$ Change	% Change
General Fund[1]	**2,921**	**3,143**	**222**	**7.6%**	**2,881**	**3,148**	**267**	**9.3%**
Miscellaneous Receipts[2]	2,861	3,083	222	7.8%	2,821	3,088	267	9.5%
Federal Grants	60	60	0	0.0%	60	60	0	0.0%
State Funds	**23,156**	**23,679**	**523**	**2.3%**	**22,871**	**23,826**	**955**	**4.2%**
Miscellaneous Receipts[2]	23,031	23,552	521	2.3%	22,734	23,681	947	4.2%
Federal Grants	125	127	2	1.6%	137	145	8	5.8%
All Funds	**73,783**	**73,834**	**51**	**0.1%**	**69,151**	**68,087**	**(1,064)**	**-1.5%**
Miscellaneous Receipts[2]	23,218	23,736	518	2.2%	22,871	23,816	945	4.1%
Federal Grants	50,565	50,098	(467)	-0.9%	46,280	44,271	(2,009)	-4.3%

[1] Excludes Transfers.

[2] Includes receipts from motor vehicle fees and alcohol beverage control license fees, previously reflected as "user taxes and fees."

All Funds miscellaneous receipts are projected to total $23.7 billion in 2010-11, an increase of $518 million from the Mid-Year Update, reflecting new assumptions for the timing of 18-A public utility assessments ($258 million) and SUNY dormitory fees ($116 million).

All Funds Federal grants are projected to total nearly $50.1 billion in 2010-11, a decrease of $467 million from the Mid-Year Update driven by revisions to assumed spending patterns for educational programs funded by Federal ARRA monies and the Federal Jobs Fund program.

General Fund miscellaneous receipts are projected to total $3.1 billion in 2010-11, an increase of $214 million from the Mid-Year Update. Revisions to the forecast reflect timing of payments related to the 18-A utility assessment.

All Funds miscellaneous receipts are projected to total $23.8 billion in 2011-12, an increase of $945 million from the Mid-Year Update, primarily driven by an increase in provider assessments ($310 million), lottery revenues ($155 million), SUNY dormitory fees ($141 million) and by the General Fund changes detailed below.

All Funds Federal grants are projected to total $44.3 billion in 2011-12, a downward revision of $2.0 billion from the Mid-Year Update which primarily reflects the Federal impact of Medicaid savings actions.

General Fund miscellaneous receipts and Federal grants projections for 2011-12 have been revised upward by $261 million from the Mid-Year Update, primarily due to increased transfers from NYPA, and an item proposed with this Budget that would reduce various abandoned property dormancy periods.

MISCELLANEOUS RECEIPTS AND FEDERAL GRANTS
(millions of dollars)

	2011-12 Projected	2012-13 Projected	Annual $ Change	2013-14 Projected	Annual $ Change	2014-15 Projected	Annual $ Change
General Fund	**3,148**	**2,887**	**(261)**	**2,465**	**(422)**	**2,036**	**(429)**
Miscellaneous Receipts[1]	3,088	2,827	(261)	2,405	(422)	1,976	(429)
Federal Grants	60	60	0	60	0	60	0
State Funds	**23,826**	**23,561**	**(265)**	**23,355**	**(206)**	**22,946**	**(409)**
Miscellaneous Receipts[1]	23,681	23,416	(265)	23,210	(206)	22,801	(409)
Federal Grants	145	145	0	145	0	145	0
All Funds	**68,087**	**63,977**	**(4,110)**	**65,623**	**1,646**	**70,421**	**4,798**
Miscellaneous Receipts[1]	23,816	23,550	(266)	23,343	(207)	22,935	(408)
Federal Grants	44,271	40,427	(3,844)	42,280	1,853	47,486	5,206

[1] Includes receipts from motor vehicle fees and alcohol beverage control license fees, previously reflected as "user taxes and fees."

In 2012-13, General Fund miscellaneous receipts and Federal grants are projected to be nearly $2.9 billion, down $261 million from 2011-12. This decrease primarily results from the loss of NYPA payments.

General Fund miscellaneous receipts and Federal grants in 2013-14 are projected to be nearly $2.5 billion, down $422 million from 2012-13. This decrease primarily results from the reduction of the 18-A utility assessment and decreased abandoned property revenues.

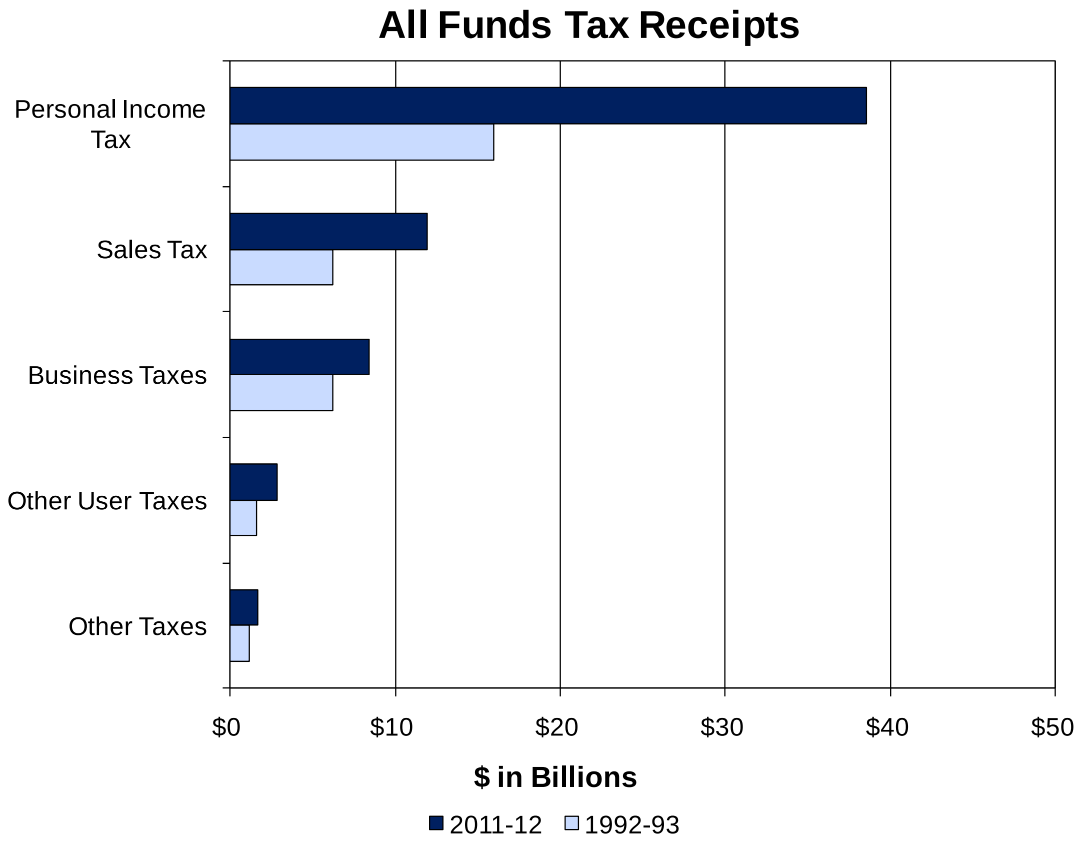
General Fund miscellaneous receipts and Federal grants in 2014-15 are projected to be just over $2.0 billion, down $429 million from the prior year. This decrease primarily results from the loss of the 18-A utility assessment and decreased abandoned property revenues.

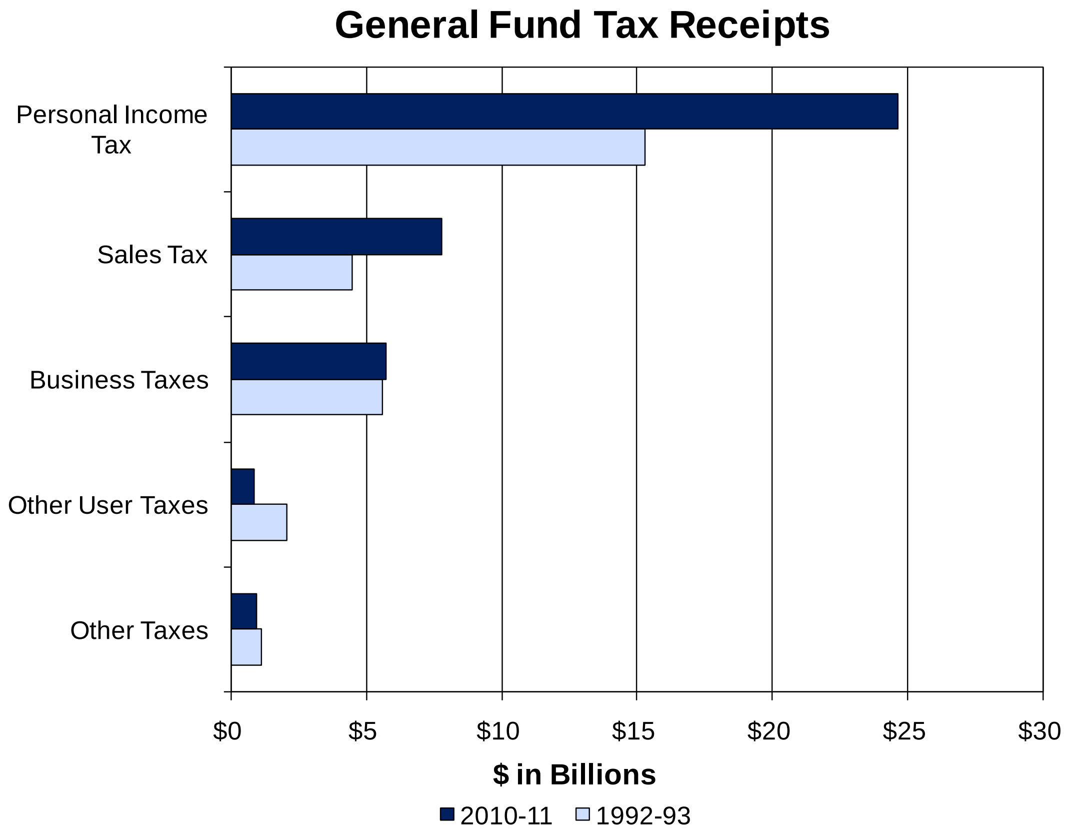
All Funds miscellaneous receipts are projected to decrease by $266 million in 2012-13 driven by the General Fund decline and a projected decline in programs financed with authority bond proceeds, including economic development and health projects ($692 million), partially offset by increases in HCRA ($199 million), provider assessments ($158 million), SUNY ($142 million) and lottery ($200 million) receipts.

Miscellaneous receipts decrease by $207 million in 2013-14 driven by the decline in General Funds partially offset by increases in HCRA ($102 million) and lottery receipts ($68 million).

Miscellaneous receipts decrease by $408 million in 2014-15 driven by the decline in General Funds and the projected decline in programs financed with authority bond proceeds, including SUNY and health projects ($253 million), partially offset by increases in SUNY receipts ($176 million).

The loss of Federal ARRA aid drives the All Funds Federal grant decline of $3.8 billion in 2012-13. Annual growth returns of $1.9 billion in 2013-14 and $5.2 billion driven primarily by Medicaid spending.




General Fund Tax Receipts
Personal Income Tax
Sales Tax
Business Taxes
Other User Taxes
Other Taxes
$0
$5
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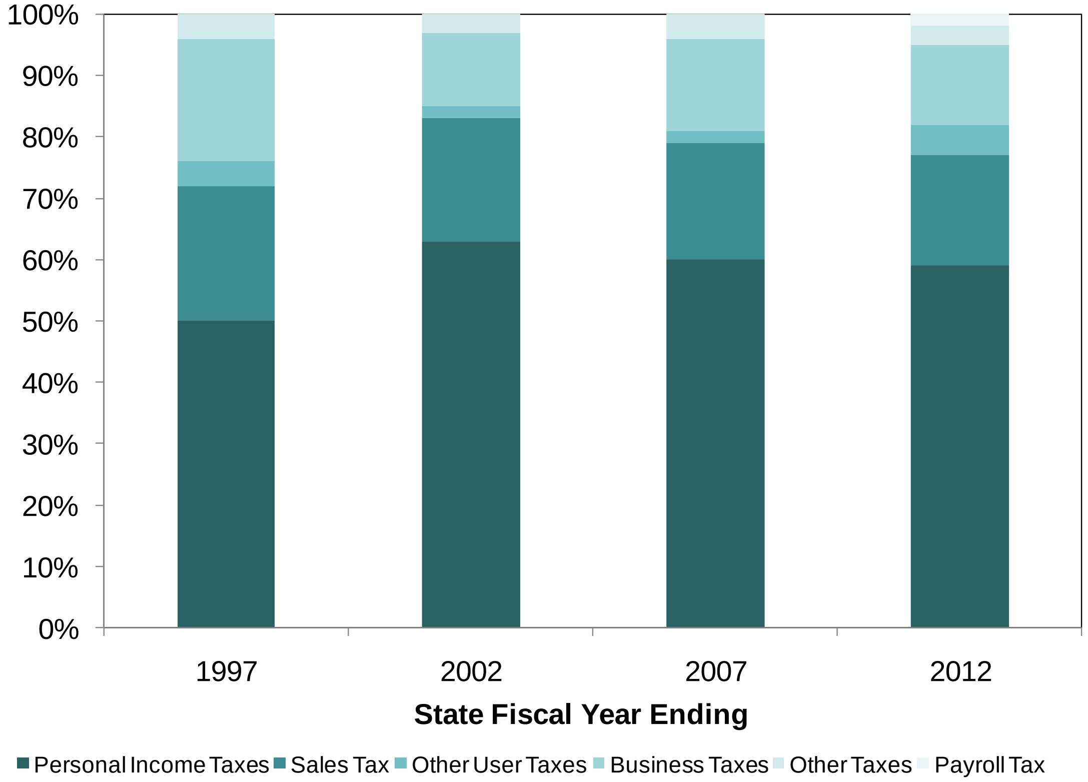
$ in Billions
2010-11
1992-93


100%
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1997
2002
2007
2012
State Fiscal Year Ending
Personal Income Taxes
Sales Tax
Other User Taxes
Business Taxes
Other Taxes
Payroll Tax

CURRENT STATE RECEIPTS
ALL GOVERNMENTAL FUNDS
2010-2011 and 2011-2012
(millions of dollars)

	2010-2011 Revised	2011-2012 Executive	Annual $ Change
Taxes:			
Withholdings	30,776	31,802	1,026
Estimated Payments	9,751	10,925	1,174
Final Payments	1,967	2,190	223
Other Payments	1,091	1,104	13
Gross Collections	43,585	46,021	2,436
State/City Offset	(48)	(48)	0
Refunds	(7,638)	(7,464)	174
Reported Tax Collections	35,899	38,509	2,610
STAR (Dedicated Deposits)	(30)	0	30
RBTF (Dedicated Transfers)	0	0	0
Personal Income Tax	35,869	38,509	2,640
Sales and Use Tax	11,513	11,950	437
Cigarette and Tobacco Taxes	1,621	1,786	165
Motor Fuel Tax	516	518	2
Alcoholic Beverage Taxes	228	233	5
Highway Use Tax	129	140	11
Auto Rental Tax	95	102	7
Taxicab Surcharge	81	81	0
Gross Utility Taxes and Fees	14,183	14,810	627
LGAC Sales Tax (Dedicated Transfers)	0	0	0
User Taxes and Fees	14,183	14,810	627
Corporation Franchise Tax	3,270	3,636	366
Corporation and Utilities Tax	836	892	56
Insurance Taxes	1,308	1,392	84
Bank Tax	1,184	1,342	158
Petroleum Business Tax	1,075	1,116	41
Business Taxes	7,673	8,378	705
Estate Tax	1,080	1,015	(65)
Real Estate Transfer Tax	566	620	54
Gift Tax	1	0	(1)
Real Property Gains Tax	0	0	0
Pari-Mutuel Taxes	17	14	(3)
Other Taxes	1	1	0
Gross Other Taxes	1,665	1,650	(15)
Real Estate Transfer Tax (Dedicated)	0	0	0
Other Taxes	1,665	1,650	(15)
Payroll Tax	1,372	1,437	65
Total Taxes	60,762	64,784	4,022
Licenses, Fees, Etc.	627	455	(172)
Abandoned Property	650	745	95
Motor Vehicle Fees	1,281	1,383	102
ABC License Fee	46	49	3
Reimbursements	222	202	(20)
Investment Income	5	10	5
Other Transactions	20,905	20,972	67
Miscellaneous Receipts	23,736	23,816	80
Federal Grants	50,098	44,271	(5,827)
Total	134,596	132,871	(1,725)

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2010-2011
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Taxes:					
Withholdings	30,776	0	0	0	30,776
Estimated Payments	9,751	0	0	0	9,751
Final Payments	1,967	0	0	0	1,967
Other Payments	1,091	0	0	0	1,091
Gross Collections	43,585	0	0	0	43,585
State/City Offset	(48)	0	0	0	(48)
Refunds	(7,638)	0	0	0	(7,638)
Reported Tax Collections	35,899	0	0	0	35,899
STAR (Dedicated Deposits)	(3,300)	3,270	0	0	(30)
RBTF (Dedicated Transfers)	(8,975)	0	0	8,975	0
Personal Income Tax	23,624	3,270	0	8,975	35,869
Sales and Use Tax	10,751	762	0	0	11,513
Cigarette and Tobacco Taxes	484	1,137	0	0	1,621
Motor Fuel Tax	0	108	408	0	516
Alcoholic Beverage Taxes	228	0	0	0	228
Highway Use Tax	0	0	129	0	129
Auto Rental Tax	0	35	60	0	95
Taxicab Surcharge	0	81	0	0	81
Gross Utility Taxes and Fees	11,463	2,123	597	0	14,183
LGAC Sales Tax (Dedicated Transfers)	(2,688)	0	0	2,688	0
User Taxes and Fees	8,775	2,123	597	2,688	14,183
Corporation Franchise Tax	2,848	422	0	0	3,270
Corporation and Utilities Tax	634	187	15	0	836
Insurance Taxes	1,191	117	0	0	1,308
Bank Tax	991	193	0	0	1,184
Petroleum Business Tax	0	478	597	0	1,075
Business Taxes	5,664	1,397	612	0	7,673
Estate Tax	1,080	0	0	0	1,080
Real Estate Transfer Tax	566	0	0	0	566
Gift Tax	1	0	0	0	1
Real Property Gains Tax	0	0	0	0	0
Pari-Mutuel Taxes	17	0	0	0	17
Other Taxes	1	0	0	0	1
Gross Other Taxes	1,665	0	0	0	1,665
Real Estate Transfer Tax (Dedicated)	(566)	0	119	447	0
Other Taxes	1,099	0	119	447	1,665
Payroll Tax	0	1,372	0	0	1,372
Total Taxes	39,162	8,162	1,328	12,110	60,762
Licenses, Fees, Etc.	627	0	0	0	627
Abandoned Property	650	0	0	0	650
Motor Vehicle Fees	36	421	824	0	1,281
ABC License Fee	46	0	0	0	46
Reimbursements	222	0	0	0	222
Investment Income	5	0	0	0	5
Other Transactions	1,497	14,881	3,620	907	20,905
Miscellaneous Receipts	3,083	15,302	4,444	907	23,736
Federal Grants	60	47,517	2,461	60	50,098
Total	42,305	70,981	8,233	13,077	134,596

RECEIPTS OVERVIEW

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2011-2012
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Taxes:					
Withholdings	31,802	0	0	0	31,802
Estimated Payments	10,925	0	0	0	10,925
Final Payments	2,190	0	0	0	2,190
Other Payments	1,104	0	0	0	1,104
Gross Collections	46,021	0	0	0	46,021
State/City Offset	(48)	0	0	0	(48)
Refunds	(7,464)	0	0	0	(7,464)
Reported Tax Collections	38,509	0	0	0	38,509
STAR (Dedicated Deposits)	(3,293)	3,293	0	0	0
RBTF (Dedicated Transfers)	(9,628)	0	0	9,628	0
Personal Income Tax	25,588	3,293	0	9,628	38,509
Sales and Use Tax	11,208	742	0	0	11,950
Cigarette and Tobacco Taxes	514	1,272	0	0	1,786
Motor Fuel Tax	0	109	409	0	518
Alcoholic Beverage Taxes	233	0	0	0	233
Highway Use Tax	0	0	140	0	140
Auto Rental Tax	0	37	65	0	102
Taxicab Surcharge	0	81	0	0	81
Gross Utility Taxes and Fees	11,955	2,241	614	0	14,810
LGAC Sales Tax (Dedicated Transfers)	(2,802)	0	0	2,802	0
User Taxes and Fees	9,153	2,241	614	2,802	14,810
Corporation Franchise Tax	3,157	479	0	0	3,636
Corporation and Utilities Tax	681	196	15	0	892
Insurance Taxes	1,266	126	0	0	1,392
Bank Tax	1,147	195	0	0	1,342
Petroleum Business Tax	0	497	619	0	1,116
Business Taxes	6,251	1,493	634	0	8,378
Estate Tax	1,015	0	0	0	1,015
Real Estate Transfer Tax	620	0	0	0	620
Gift Tax	0	0	0	0	0
Real Property Gains Tax	0	0	0	0	0
Pari-Mutuel Taxes	14	0	0	0	14
Other Taxes	1	0	0	0	1
Gross Other Taxes	1,650	0	0	0	1,650
Real Estate Transfer Tax (Dedicated)	(620)	0	119	501	0
Other Taxes	1,030	0	119	501	1,650
Payroll Tax	0	1,437	0	0	1,437
Total Taxes	42,022	8,464	1,367	12,931	64,784
Licenses, Fees, Etc.	455	0	0	0	455
Abandoned Property	745	0	0	0	745
Motor Vehicle Fees	132	424	827	0	1,383
ABC License Fee	49	0	0	0	49
Reimbursements	202	0	0	0	202
Investment Income	10	0	0	0	10
Other Transactions	1,495	15,026	3,502	949	20,972
Miscellaneous Receipts	3,088	15,450	4,329	949	23,816
Federal Grants	60	41,823	2,309	79	44,271
Total	45,170	65,737	8,005	13,959	132,871

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2012-2013
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Taxes:					
Withholdings	32,256	0	0	0	32,256
Estimated Payments	11,028	0	0	0	11,028
Final Payments	2,293	0	0	0	2,293
Other Payments	1,149	0	0	0	1,149
Gross Collections	46,726	0	0	0	46,726
State/City Offset	(48)	0	0	0	(48)
Refunds	(7,854)	0	0	0	(7,854)
Reported Tax Collections	38,824	0	0	0	38,824
STAR (Dedicated Deposits)	(3,322)	3,322	0	0	0
RBTF (Dedicated Transfers)	(9,706)	0	0	9,706	0
Personal Income Tax	25,796	3,322	0	9,706	38,824
Sales and Use Tax	11,513	770	0	0	12,283
Cigarette and Tobacco Taxes	513	1,254	0	0	1,767
Motor Fuel Tax	0	109	412	0	521
Alcoholic Beverage Taxes	238	0	0	0	238
Highway Use Tax	0	0	148	0	148
Auto Rental Tax	0	39	68	0	107
Taxicab Surcharge	0	81	0	0	81
Gross Utility Taxes and Fees	12,264	2,253	628	0	15,145
LGAC Sales Tax (Dedicated Transfers)	(2,878)	0	0	2,878	0
User Taxes and Fees	9,386	2,253	628	2,878	15,145
Corporation Franchise Tax	3,144	515	0	0	3,659
Corporation and Utilities Tax	750	199	15	0	964
Insurance Taxes	1,318	131	0	0	1,449
Bank Tax	1,210	204	0	0	1,414
Petroleum Business Tax	0	513	639	0	1,152
Business Taxes	6,422	1,562	654	0	8,638
Estate Tax	1,060	0	0	0	1,060
Real Estate Transfer Tax	700	0	0	0	700
Gift Tax	0	0	0	0	0
Real Property Gains Tax	0	0	0	0	0
Pari-Mutuel Taxes	14	0	0	0	14
Other Taxes	1	0	0	0	1
Gross Other Taxes	1,775	0	0	0	1,775
Real Estate Transfer Tax (Dedicated)	(700)	0	119	581	0
Other Taxes	1,075	0	119	581	1,775
Payroll Tax	0	1,521	0	0	1,521
Total Taxes	42,679	8,658	1,401	13,165	65,903
Licenses, Fees, Etc.	445	0	0	0	445
Abandoned Property	725	0	0	0	725
Motor Vehicle Fees	109	422	824	0	1,355
ABC License Fee	51	0	0	0	51
Reimbursements	202	0	0	0	202
Investment Income	10	0	0	0	10
Other Transactions	1,285	15,667	2,813	997	20,762
Miscellaneous Receipts	2,827	16,089	3,637	997	23,550
Federal Grants	60	38,426	1,862	79	40,427
Total	45,566	63,173	6,900	14,241	129,880

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2013-2014
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Taxes:					
Withholdings	34,435	0	0	0	34,435
Estimated Payments	11,110	0	0	0	11,110
Final Payments	2,291	0	0	0	2,291
Other Payments	1,226	0	0	0	1,226
Gross Collections	49,062	0	0	0	49,062
State/City Offset	(48)	0	0	0	(48)
Refunds	(7,992)	0	0	0	(7,992)
Reported Tax Collections	41,022	0	0	0	41,022
STAR (Dedicated Deposits)	(3,510)	3,510	0	0	0
RBTF (Dedicated Transfers)	(10,256)	0	0	10,256	0
Personal Income Tax	27,256	3,510	0	10,256	41,022
Sales and Use Tax	12,008	800	0	0	12,808
Cigarette and Tobacco Taxes	506	1,232	0	0	1,738
Motor Fuel Tax	0	110	413	0	523
Alcoholic Beverage Taxes	242	0	0	0	242
Highway Use Tax	0	0	147	0	147
Auto Rental Tax	0	41	71	0	112
Taxicab Surcharge	0	81	0	0	81
Gross Utility Taxes and Fees	12,756	2,264	631	0	15,651
LGAC Sales Tax (Dedicated Transfers)	(3,002)	0	0	3,002	0
User Taxes and Fees	9,754	2,264	631	3,002	15,651
Corporation Franchise Tax	3,290	547	0	0	3,837
Corporation and Utilities Tax	780	203	15	0	998
Insurance Taxes	1,376	140	0	0	1,516
Bank Tax	1,271	212	0	0	1,483
Petroleum Business Tax	0	515	641	0	1,156
Business Taxes	6,717	1,617	656	0	8,990
Estate Tax	1,120	0	0	0	1,120
Real Estate Transfer Tax	795	0	0	0	795
Gift Tax	0	0	0	0	0
Real Property Gains Tax	0	0	0	0	0
Pari-Mutuel Taxes	14	0	0	0	14
Other Taxes	1	0	0	0	1
Gross Other Taxes	1,930	0	0	0	1,930
Real Estate Transfer Tax (Dedicated)	(795)	0	119	676	0
Other Taxes	1,135	0	119	676	1,930
Payroll Tax	0	1,610	0	0	1,610
Total Taxes	44,862	9,001	1,406	13,934	69,203
Licenses, Fees, Etc.	406	0	0	0	406
Abandoned Property	660	0	0	0	660
Motor Vehicle Fees	36	421	836	0	1,293
ABC License Fee	50	0	0	0	50
Reimbursements	197	0	0	0	197
Investment Income	10	0	0	0	10
Other Transactions	1,046	15,939	2,699	1,043	20,727
Miscellaneous Receipts	2,405	16,360	3,535	1,043	23,343
Federal Grants	60	40,321	1,820	79	42,280
Total	47,327	65,682	6,761	15,056	134,826

CURRENT STATE RECEIPTS
GENERAL FUND
2010-2011 and 2011-2012
(millions of dollars)

	2010-2011 Revised	2011-2012 Executive	Annual $ Change
Taxes:			
Withholdings	30,776	31,802	1,026
Estimated Payments	9,751	10,925	1,174
Final Payments	1,967	2,190	223
Other Payments	1,091	1,104	13
Gross Collections	43,585	46,021	2,436
State/City Offset	(48)	(48)	0
Refunds	(7,638)	(7,464)	174
Reported Tax Collections	35,899	38,509	2,610
STAR (Dedicated Deposits)	(3,300)	(3,293)	7
RBTF (Dedicated Transfers)	(8,975)	(9,628)	(653)
Personal Income Tax	23,624	25,588	1,964
Sales and Use Tax	10,751	11,208	457
Cigarette and Tobacco Taxes	484	514	30
Motor Fuel Tax	0	0	0
Alcoholic Beverage Taxes	228	233	5
Highway Use Tax	0	0	0
Auto Rental Tax	0	0	0
Taxicab Surcharge	0	0	0
Gross Utility Taxes and Fees	11,463	11,955	492
LGAC Sales Tax (Dedicated Transfers)	(2,688)	(2,802)	(114)
User Taxes and Fees	8,775	9,153	378
Corporation Franchise Tax	2,848	3,157	309
Corporation and Utilities Tax	634	681	47
Insurance Taxes	1,191	1,266	75
Bank Tax	991	1,147	156
Petroleum Business Tax	0	0	0
Business Taxes	5,664	6,251	587
Estate Tax	1,080	1,015	(65)
Real Estate Transfer Tax	566	620	54
Gift Tax	1	0	(1)
Real Property Gains Tax	0	0	0
Pari-Mutuel Taxes	17	14	(3)
Other Taxes	1	1	0
Gross Other Taxes	1,665	1,650	(15)
Real Estate Transfer Tax (Dedicated)	(566)	(620)	(54)
Other Taxes	1,099	1,030	(69)
Payroll Tax	0	0	0
Total Taxes	39,162	42,022	2,860
Licenses, Fees, Etc.	627	455	(172)
Abandoned Property	650	745	95
Motor Vehicle Fees	36	132	96
ABC License Fee	46	49	3
Reimbursements	222	202	(20)
Investment Income	5	10	5
Other Transactions	1,497	1,495	(2)
Miscellaneous Receipts	3,083	3,088	5
Federal Grants	60	60	0
Total	42,305	45,170	2,865

CASH RECEIPTS
CURRENT STATE RECEIPTS
GENERAL FUND
2011-2012 THROUGH 2014-2015
(millions of dollars)

	2011-2012 Executive	2012-2013 Projected	2013-2014 Projected	2014-2015 Projected
Taxes:				
Withholdings	31,802	32,256	34,435	36,283
Estimated Payments	10,925	11,028	11,110	11,775
Final Payments	2,190	2,293	2,291	2,288
Other Payments	1,104	1,149	1,226	1,328
Gross Collections	46,021	46,726	49,062	51,674
State/City Offset	(48)	(48)	(48)	(48)
Refunds	(7,464)	(7,854)	(7,992)	(8,829)
Reported Tax Collections	38,509	38,824	41,022	42,797
STAR (Dedicated Deposits)	(3,293)	(3,322)	(3,510)	(3,693)
RBTF (Dedicated Transfers)	(9,628)	(9,706)	(10,256)	(10,700)
Personal Income Tax	25,588	25,796	27,256	28,404
Sales and Use Tax	11,208	11,513	12,008	12,488
Cigarette and Tobacco Taxes	514	513	506	500
Motor Fuel Tax	0	0	0	0
Alcoholic Beverage Taxes	233	238	242	247
Highway Use Tax	0	0	0	0
Auto Rental Tax	0	0	0	0
Taxicab Surcharge	0	0	0	0
Gross Utility Taxes and Fees	11,955	12,264	12,756	13,235
LGAC Sales Tax (Dedicated Transfers)	(2,802)	(2,878)	(3,002)	(3,122)
User Taxes and Fees	9,153	9,386	9,754	10,113
Corporation Franchise Tax	3,157	3,144	3,290	2,607
Corporation and Utilities Tax	681	750	780	803
Insurance Taxes	1,266	1,318	1,376	1,438
Bank Tax	1,147	1,210	1,271	1,338
Petroleum Business Tax	0	0	0	0
Business Taxes	6,251	6,422	6,717	6,186
Estate Tax	1,015	1,060	1,120	1,180
Real Estate Transfer Tax	620	700	795	860
Gift Tax	0	0	0	0
Real Property Gains Tax	0	0	0	0
Pari-Mutuel Taxes	14	14	14	14
Other Taxes	1	1	1	1
Gross Other Taxes	1,650	1,775	1,930	2,055
Real Estate Transfer Tax (Dedicated)	(620)	(700)	(795)	(860)
Other Taxes	1,030	1,075	1,135	1,195
Payroll Tax	0	0	0	0
Total Taxes	42,022	42,679	44,862	45,898
Licenses, Fees, Etc.	455	445	406	426
Abandoned Property	745	725	660	645
Motor Vehicle Fees	132	109	36	36
ABC License Fee	49	51	50	50
Reimbursements	202	202	197	197
Investment Income	10	10	10	10
Other Transactions	1,495	1,285	1,046	612
Miscellaneous Receipts	3,088	2,827	2,405	1,976
Federal Grants	60	60	60	60
Total	45,170	45,566	47,327	47,934

CASH RECEIPTS
SPECIAL REVENUE FUNDS
2010-2011 and 2011-2012
(millions of dollars)

	2010-2011 Revised	2011-2012 Executive	Annual $ Change
Personal Income Tax	3,270	3,293	23
User Taxes and Fees	2,123	2,241	118
Sales and Use Tax	762	742	(20)
Cigarette and Tobacco Taxes	1,137	1,272	135
Motor Fuel Tax	108	109	1
Auto Rental Tax	35	37	2
Taxicab Surcharge	81	81	0
Business Taxes	1,397	1,493	96
Corporation Franchise Tax	422	479	57
Corporation and Utilities Tax	187	196	9
Insurance Taxes	117	126	9
Bank Tax	193	195	2
Petroleum Business Tax	478	497	19
Payroll Tax	1,372	1,437	65
Total Taxes	8,162	8,464	302
Miscellaneous Receipts	15,302	15,450	148
HCRA	3,878	4,103	225
State University Income	3,368	3,609	241
Lottery	3,193	3,080	(113)
Medicaid	745	1,060	315
Industry Assessments	972	834	(138)
Motor Vehicle Fees	421	424	3
All Other	2,725	2,340	(385)
Federal Grants	47,517	41,823	(5,694)
Total	70,981	65,737	(5,244)

CASH RECEIPTS
SPECIAL REVENUE FUNDS
2011-2012 THROUGH 2014-2015
(millions of dollars)

	2011-2012 Projected	2012-2013 Projected	2013-2014 Projected	2014-2015 Projected
Personal Income Tax	3,293	3,322	3,510	3,693
User Taxes and Fees	2,241	2,253	2,264	2,274
Sales and Use Tax	742	770	800	830
Cigarette and Tobacco Taxes	1,272	1,254	1,232	1,210
Motor Fuel Tax	109	109	110	110
Auto Rental Tax	37	39	41	43
Taxicab Surcharge	81	81	81	81
Business Taxes	1,493	1,562	1,617	1,703
Corporation Franchise Tax	479	515	547	592
Corporation and Utilities Tax	196	199	203	206
Insurance Taxes	126	131	140	165
Bank Tax	195	204	212	223
Petroleum Business Tax	497	513	515	517
Payroll Tax	1,437	1,521	1,610	1,701
Total Taxes	8,464	8,658	9,001	9,371
Miscellaneous Receipts	15,450	16,089	16,360	16,613
HCRA	4,103	4,303	4,404	4,453
State University Income	3,609	3,743	3,799	3,966
Lottery	3,080	3,283	3,351	3,372
Medicaid	1,060	1,217	1,217	1,220
Industry Assessments	834	842	853	865
Motor Vehicle Fees	424	422	421	421
All Other	2,340	2,279	2,315	2,316
Federal Grants	41,823	38,426	40,321	45,556
Total	65,737	63,173	65,682	71,540

CASH RECEIPTS
CAPITAL PROJECTS FUNDS
2010-2011 and 2011-2012
(millions of dollars)

	2010-2011 Revised	2011-2012 Executive	Annual $ Change
User Taxes and Fees	597	614	17
Motor Fuel Tax	408	409	1
Highway Use Tax	129	140	11
Auto Rental Tax	60	65	5
Business Taxes	612	634	22
Corporation and Utilities Tax	15	15	0
Petroleum Business Tax	597	619	22
Other Taxes	119	119	0
Real Estate Transfer Tax	119	119	0
Total Taxes	1,328	1,367	39
Miscellaneous Receipts	4,444	4,329	(115)
Authority Bond Proceeds	3,429	3,311	(118)
State Park Fees	56	24	(32)
Environmental Revenues	77	77	0
Motor Vehicle Fees	824	827	3
All Other	58	90	32
Federal Grants	2,461	2,309	(152)
Total	8,233	8,005	(228)

CASH RECEIPTS
CAPITAL PROJECTS FUNDS
2011-2012 THROUGH 2014-2015
(millions of dollars)

	2011-2012 Projected	2012-2013 Projected	2013-2014 Projected	2014-2015 Projected
User Taxes and Fees	614	628	631	639
Motor Fuel Tax	409	412	413	415
Highway Use Tax	140	148	147	150
Auto Rental Tax	65	68	71	74
Business Taxes	634	654	656	658
Corporation and Utilities Tax	15	15	15	15
Petroleum Business Tax	619	639	641	643
Other Taxes	119	119	119	119
Real Estate Transfer Tax	119	119	119	119
Total Taxes	1,367	1,401	1,406	1,416
Miscellaneous Receipts	4,329	3,637	3,535	3,282
Authority Bond Proceeds	3,311	2,630	2,520	2,266
State Park Fees	24	24	24	24
Environmental Revenues	77	77	77	77
Motor Vehicle Fees	827	824	836	836
All Other	90	82	78	79
Federal Grants	2,309	1,862	1,820	1,791
Total	8,005	6,900	6,761	6,489

CASH RECEIPTS
DEBT SERVICE FUNDS
2010-2011 and 2011-2012
(millions of dollars)

	2010-2011 Revised	2011-2012 Executive	Annual $ Change
Personal Income Tax	8,975	9,628	653
User Taxes and Fees	2,688	2,802	114
Sales and Use Tax	2,688	2,802	114
Other Taxes	447	501	54
Real Estate Transfer Tax	447	501	54
Total Taxes	12,110	12,931	821
Miscellaneous Receipts	907	949	42
Mental Hygiene Patient Receipts	298	325	27
SUNY Dormitory Fees	458	482	24
Health Patient Receipts	136	128	(8)
All Other	15	14	(1)
Federal Grants	60	79	19
Total	13,077	13,959	882

CASH RECEIPTS
DEBT SERVICE FUNDS
2011-2012 THROUGH 2014-2015
(millions of dollars)

	2011-2012 Projected	2012-2013 Projected	2013-2014 Projected	2014-2015 Projected
Personal Income Tax	9,628	9,706	10,256	10,700
User Taxes and Fees	2,802	2,878	3,002	3,122
Sales and Use Tax	2,802	2,878	3,002	3,122
Other Taxes	501	581	676	741
Real Estate Transfer Tax	501	581	676	741
Total Taxes	12,931	13,165	13,934	14,563
Miscellaneous Receipts	949	997	1,043	1,064
Mental Hygiene Patient Receipts	325	352	375	404
SUNY Dormitory Fees	482	505	529	554
Health Patient Receipts	128	128	128	98
All Other	14	12	11	8
Federal Grants	79	79	79	79
Total	13,959	14,241	15,056	15,706

CASH FLOW

CASH FLOW

The following tables report monthly cash flow for All Funds tax receipts. Actual results are provided for the first nine months of the current State fiscal year, and estimates are reported for the remainder of 2010-11 and all of 2011-12. The monthly estimates for 2011-12 are primarily based on average shares from prior years adjusted for proposed and previously enacted law changes that will impact normal cash flow. This section contains sub-headings that detail actual cash flow results through December and compare them with Mid-Year estimates and the Enacted Budget estimates. This section also contains charts showing monthly General, Special Revenue, Capital Projects and Debt Service Funds cash flows for total taxes and major tax categories and General Fund miscellaneous receipts and Federal grants.

PERSONAL INCOME TAX

The personal income tax cash flow for 2010-11 has continued the atypical pattern in 2009-10, due mainly to the temporary high income tax rate increase and the timing of financial bonuses. Both withholding and tax year 2010 estimated tax have generally increased as the year has proceeded, as many affected taxpayers began to comply with the tax increase and had more incomes subject to the higher rates. As in 2009-10, bonuses from some of the large Wall Street banks, normally paid in January, were paid in February. The settlement for tax year 2009 registered strong improvements largely reflecting "catch up" by many high income taxpayers to their full tax rate liability increases. April extension payments increased by almost 30 percent compared to the prior year. Refunds on tax returns in the first quarter of 2010-11 reflect the shift of $500 million in "refund cap" amount from 2009-10 to 2010-11. Finally, approximately $2.4 billion in STAR transfer payments were delayed from December 2010 to January 2011.

Cash flow for 2011-12 is expected to exhibit a more normal cash flow pattern. One exception is expiration of the temporary rate increase in December 2011, leading to flat withholding growth for the bonus quarter, January-March 2012. STAR reimbursements for property tax exemptions will revert back to the usual schedule and make the large transfer payment in December. Proposed Executive Budget initiatives would not have an appreciable impact on overall cash flow patterns.

USER TAXES AND FEES

The cash flow pattern in user taxes and fees follows a quarterly pattern, with months at the conclusion of calendar quarters that are larger, reflecting the impact of quarterly taxpayers. The 2011-12 cash flow for sales tax and other taxes in this category are expected to be consistent with historical averages modified for tax law changes and audits. Historically, the fourth-quarter share has been slightly smaller than the other quarters.

BUSINESS TAXES

General Fund cash flow for business taxes typically follows a pattern of large monthly collections in June, September, December and March. This pattern can be affected by large audit and compliance collections as well as large refunds. In 2010-11, the monthly cash flow pattern was not significantly impacted by these items.

OTHER TAXES

General Fund cash flow for other taxes is dominated by the estate tax which comprises 98.3 percent of the total. Unlike most taxes that have cash flow patterns determined by statute and possible seasonal influences, the estate tax follows no regular pattern during the year. Prior year cash flow gives little guidance to future cash flow patterns. As a working concept, monthly cash flow for the estate tax for 2011-12 is assumed to be uniform throughout the fiscal year. A minor portion of the tax category comes from pari-mutuel taxes on horse racing which display some seasonality but have little impact on overall cash flow.

GENERAL FUND 2010-11 MONTHLY CASHFLOW ACTUAL AND ESTIMATES (millions of dollars)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	**3,069**	**783**	**2,165**	**1,575**	**1,669**	**2,571**	**1,610**	**1,329**	**2,744**	**2,127**	**2,199**	**1,785**	**23,625**
Gross collections	6,865	2,250	3,809	2,279	2,351	3,699	2,494	2,402	4,069	6,106	3,874	3,390	43,585
Refunds	(2,773)	(1,206)	(260)	(179)	(126)	(134)	(336)	(572)	(199)	(48)	(942)	(912)	(7,686)
STAR Fund deposit	-	-	(497)	-	-	(102)	(9)	(43)	(158)	(2,417)	-	(73)	(3,300)
DRRF deposit/RBTF	(1,023)	(261)	(887)	(525)	(556)	(891)	(540)	(457)	(967)	(1,515)	(733)	(620)	(8,975)
User taxes and fees	**669**	**589**	**859**	**666**	**666**	**863**	**669**	**688**	**931**	**743**	**618**	**815**	**8,775**
Sales and use taxes	612	534	792	604	604	791	610	630	869	682	571	764	8,063
Cigarette and tobacco taxes	39	36	47	38	46	51	39	42	41	35	34	35	484
Alcoholic beverage taxes	18	19	20	24	16	20	21	16	21	26	12	15	228
Business taxes	**60**	**2**	**915**	**80**	**21**	**990**	**59**	**132**	**1,169**	**74**	**74**	**2,087**	**5,664**
Corporation franchise tax	68	10	435	59	28	325	41	42	619	50	60	1,113	2,848
Corp. & utilities taxes	16	(9)	83	19	(12)	140	(1)	(1)	160	2	4	234	634
Insurance taxes	6	1	214	1	8	251	9	5	234	7	5	451	1,191
Bank tax	(29)	0	183	1	(2)	275	11	86	157	15	5	290	991
Other taxes	**93**	**83**	**103**	**155**	**81**	**116**	**82**	**85**	**96**	**68**	**68**	**68**	**1,099**
Estate & gift tax	92	81	101	153	79	114	80	84	96	67	67	67	1,081
Real property gains tax	-	-	-	-	-	-	-	-	-	-	-	-	-
Pari-mutuel taxes	1	2	2	2	3	2	2	1	1	1	1	1	17
Other taxes	-	-	0	-	0	-	0	0	-	-	-	0	1
TOTAL	**3,892**	**1,457**	**4,042**	**2,476**	**2,437**	**4,539**	**2,420**	**2,234**	**4,941**	**3,012**	**2,958**	**4,755**	**39,162**
Miscellaneous Receipts	**90**	**92**	**244**	**146**	**153**	**584**	**149**	**249**	**225**	**192**	**166**	**794**	**3,084**
Licenses, Fees, etc.	47	56	55	56	53	69	54	72	48	39	42	38	628
Abandoned Property	0	(4)	77	3	28	43	32	129	68	48	43	185	650
ABC license fees	4	5	4	4	4	4	2	4	3	4	4	4	46
Motor vehicle fees	-	-	-	-	-	-	-	-	-	-	-	36	36
Reimbursements	7	13	35	13	6	47	9	8	35	15	15	21	222
Investment Income	1	0	0	1	0	0	1	0	0	-	0	1	5
Other Transactions	31	23	74	69	62	421	52	37	71	86	62	510	1,497
Federal Grants	**1**	**13**	**-**	**-**	**-**	**-**	**16**	**-**	**14**	**-**	**-**	**17**	**60**
TOTAL RECEIPTS	**3,982**	**1,561**	**4,286**	**2,622**	**2,591**	**5,124**	**2,585**	**2,483**	**5,180**	**3,204**	**3,124**	**5,566**	**42,306**

SPECIAL REVENUE FUNDS 2010-11 MONTHLY CASHFLOW ACTUAL AND ESTIMATES (millions of dollars)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	**-**	**-**	**497**	**-**	**-**	**102**	**9**	**43**	**158**	**2,417**	**-**	**73**	**3,300**
User taxes and fees	**225**	**134**	**174**	**178**	**164**	**225**	**184**	**164**	**200**	**176**	**146**	**154**	**2,123**
Sales and use taxes	110	51	72	55	54	70	55	57	77	59	53	50	762
Cigarette and tobacco taxes	81	73	94	94	99	133	101	97	105	88	85	88	1,137
Motor fuel tax	8	9	8	10	10	9	9	9	9	9	8	9	108
Taxicab Surcharge	19	1	0	20	1	1	19	0	-	20	0	0	81
Auto Rental Tax	7	-	1	0	0	11	0	0	9	0	0	8	35
Business taxes	**32**	**55**	**202**	**63**	**54**	**207**	**57**	**72**	**214**	**55**	**70**	**318**	**1,397**
Corporation franchise tax	8	1	70	11	12	49	8	15	88	7	23	131	422
Corp. & utilities taxes	(4)	13	28	5	(5)	36	4	(2)	36	4	5	66	187
Insurance taxes	1	(0)	25	1	1	26	2	1	25	1	1	34	117
Bank tax	(10)	2	38	3	1	55	2	20	24	6	3	49	193
Petroleum business taxes	37	38	41	43	46	41	41	37	41	38	38	39	478
Other taxes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
MCTD Payroll Tax	**137**	**119**	**80**	**100**	**118**	**68**	**96**	**113**	**103**	**170**	**151**	**117**	**1,372**
TOTAL	**257**	**307**	**953**	**341**	**336**	**602**	**346**	**392**	**675**	**2,817**	**367**	**663**	**8,192**

CAPITAL PROJECTS FUND 2010-11 MONTHLY CASHFLOW ACTUAL AND ESTIMATES (millions of dollars)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	-	-	-	-	-	-	-	-	-	-	-	-	-
User taxes and fees	**42**	**43**	**55**	**48**	**51**	**65**	**46**	**45**	**61**	**46**	**41**	**54**	**597**
Motor fuel tax	31	34	31	37	39	36	35	33	34	36	31	32	408
Highway use tax	13	9	11	11	12	9	11	12	11	10	10	9	129
Auto rental tax	(2)	0	13	0	0	19	0	0	16	0	0	13	60
Business taxes	**47**	**48**	**54**	**55**	**57**	**53**	**51**	**46**	**54**	**48**	**48**	**52**	**612**
Corp. & utilities taxes	0	0	3	0	0	2	(0)	(0)	3	0	0	5	15
Petroleum business taxes	46	48	51	54	57	51	51	46	51	48	48	47	597
Other taxes	**-**	**-**	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**119**
Real estate transfer tax	-	-	12	12	12	12	12	12	12	12	12	12	119
TOTAL	**89**	**91**	**121**	**114**	**120**	**130**	**108**	**103**	**126**	**106**	**101**	**118**	**1,328**

DEBT SERVICE FUNDS 2010-11 MONTHLY CASHFLOW ACTUAL AND ESTIMATES (millions of dollars)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	**1,023**	**261**	**887**	**525**	**556**	**891**	**540**	**457**	**967**	**1,515**	**733**	**620**	**8,975**
User taxes and fees	**190**	**189**	**264**	**201**	**201**	**264**	**203**	**210**	**290**	**228**	**192**	**256**	**2,688**
Sales and use taxes	190	189	264	201	201	264	203	210	290	228	192	256	2,688
Business taxes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other taxes	**45**	**43**	**39**	**48**	**43**	**37**	**36**	**30**	**20**	**40**	**30**	**35**	**447**
Real estate transfer tax	45	43	39	48	43	37	36	30	20	40	30	35	447
TOTAL	**1,258**	**494**	**1,190**	**774**	**801**	**1,192**	**778**	**698**	**1,277**	**1,783**	**955**	**910**	**12,110**

GENERAL FUND 2011-12 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	**3,630**	**877**	**2,404**	**1,641**	**1,836**	**2,747**	**1,661**	**1,431**	**552**	**4,949**	**2,171**	**1,689**	**25,589**
Gross collections	7,291	2,427	3,995	2,375	2,576	4,033	2,604	2,597	4,468	6,651	3,838	3,165	46,021
Refunds	(2,451)	(1,258)	(268)	(187)	(127)	(133)	(360)	(590)	(229)	(52)	(944)	(914)	(7,511)
STAR Fund deposit	-	-	(392)	-	-	(178)	(22)	(74)	(2,627)	-	-	-	(3,293)
DRRF deposit/RBTF	(1,210)	(292)	(932)	(547)	(612)	(975)	(561)	(502)	(1,060)	(1,650)	(724)	(563)	(9,627)
User taxes and fees	**701**	**678**	**891**	**714**	**727**	**943**	**699**	**702**	**859**	**757**	**626**	**856**	**9,153**
Sales and use taxes	635	617	826	644	662	873	640	642	795	692	578	803	8,406
Cigarette and tobacco taxes	47	42	46	46	47	50	41	40	43	38	36	39	514
Alcoholic beverage taxes	20	19	19	24	18	21	18	20	21	26	13	15	233
Business taxes	**(49)**	**6**	**1,166**	**90**	**118**	**1,323**	**151**	**118**	**1,329**	**117**	**172**	**1,708**	**6,251**
Corporation franchise tax	(63)	(7)	548	69	97	606	131	83	635	100	137	821	3,157
Corp. & utilities taxes	2	2	96	5	5	162	4	3	189	3	3	205	681
Insurance taxes	6	6	255	7	8	290	5	23	249	6	23	387	1,266
Bank tax	5	5	268	10	9	265	11	9	255	8	9	295	1,147
Other taxes	**85**	**86**	**86**	**86**	**87**	**87**	**86**	**85**	**85**	**86**	**86**	**86**	**1,030**
Estate & gift tax	85	85	85	85	85	85	85	85	85	85	85	84	1,015
Real property gains tax	-	-	-	-	-	-	-	-	-	-	-	-	-
Pari-mutuel taxes	1	1	1	1	2	2	1	1	1	1	1	1	14
Other taxes	-	-	0	-	0	-	0	0	-	-	-	0	1
TOTAL	**4,368**	**1,647**	**4,547**	**2,531**	**2,768**	**5,100**	**2,598**	**2,337**	**2,825**	**5,909**	**3,054**	**4,339**	**42,023**
Miscellaneous Receipts	**368**	**99**	**196**	**160**	**121**	**532**	**131**	**229**	**239**	**204**	**219**	**589**	**3,088**
Licenses, Fees, etc.	33	32	39	31	39	40	41	39	41	39	42	41	455
Abandoned Property	10	-	30	16	10	92	23	127	42	73	56	266	745
ABC license fees	5	4	4	5	4	5	3	3	3	4	5	3	49
Motor vehicle fees									30	30	30	42	132
Reimbursements	9	12	25	9	12	24	12	12	27	10	10	40	202
Investment Income	1	0	0	2	0	0	1	0	0	1	1	2	10
Other Transactions	311	51	98	97	55	371	52	48	96	47	76	194	1,495
Federal Grants	**-**	**-**	**15**	**-**	**-**	**15**	**-**	**-**	**15**	**-**	**-**	**15**	**60**
TOTAL RECEIPTS	**4,736**	**1,746**	**4,758**	**2,691**	**2,889**	**5,647**	**2,729**	**2,566**	**3,079**	**6,113**	**3,273**	**4,943**	**45,171**

CASH FLOW

SPECIAL REVENUE FUNDS 2011-12 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	**-**	**-**	**392**	**-**	**-**	**178**	**22**	**74**	**2,627**	**-**	**-**	**-**	**3,293**
User taxes and fees	**207**	**167**	**208**	**204**	**187**	**212**	**189**	**168**	**208**	**183**	**148**	**161**	**2,241**
Sales and use taxes	60	54	75	57	57	74	57	60	81	61	56	50	742
Cigarette and tobacco taxes	119	105	117	116	120	117	102	99	108	93	84	94	1,272
Motor fuel tax	8	9	8	10	10	9	9	9	9	9	8	9	109
Taxicab Surcharge	20	-	-	21	-	-	20	-	-	20	-	-	81
Auto Rental Tax	-	-	8	-	-	12	-	0	10	0	0	8	37
Business taxes	**31**	**41**	**235**	**59**	**66**	**250**	**66**	**54**	**260**	**57**	**63**	**311**	**1,493**
Corporation franchise tax	(10)	(1)	83	10	15	92	20	13	96	15	21	125	479
Corp. & utilities taxes	1	1	37	1	1	44	1	1	52	1	1	56	196
Insurance taxes	1	1	27	1	1	27	1	1	26	1	1	41	126
Bank tax	1	1	46	2	1	45	2	1	43	1	2	50	195
Petroleum business taxes	38	40	42	45	48	42	42	38	42	39	39	40	497
Other taxes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
MCTD Payroll Tax	**138**	**118**	**79**	**108**	**123**	**72**	**101**	**122**	**110**	**181**	**161**	**124**	**1,437**
TOTAL	**376**	**326**	**913**	**371**	**375**	**713**	**377**	**418**	**3,205**	**422**	**372**	**596**	**8,464**

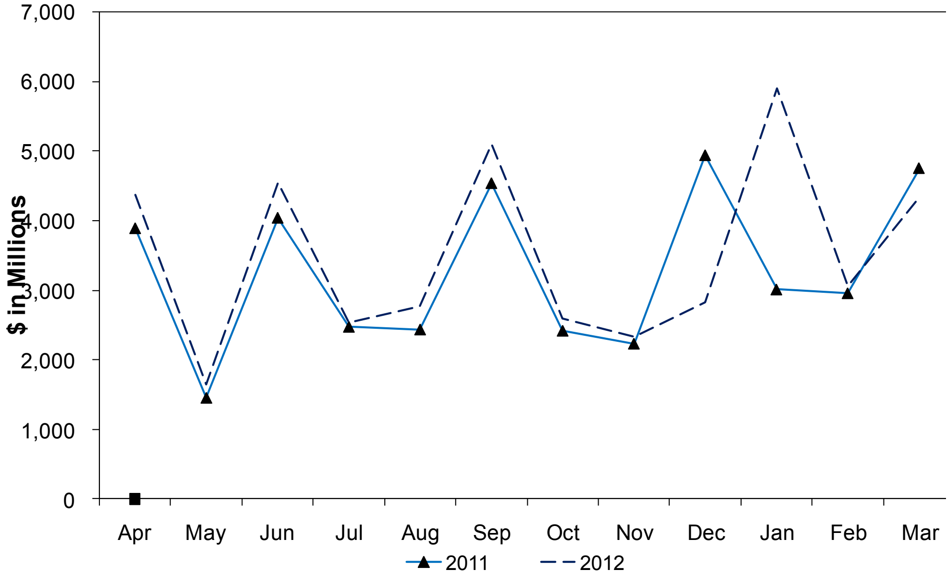
CAPITAL PROJECTS FUND 2011-12 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
User taxes and fees	**44**	**43**	**56**	**48**	**52**	**68**	**48**	**46**	**63**	**47**	**42**	**56**	**614**
Motor fuel tax	31	34	31	37	39	36	35	33	34	36	31	32	409
Highway use tax	13	9	11	12	13	11	13	13	12	11	11	10	140
Auto rental tax	-	-	14	-	-	20	-	-	17	-	-	13	65
Business taxes	**49**	**49**	**56**	**57**	**58**	**57**	**54**	**49**	**56**	**49**	**49**	**51**	**634**
Corp. & utilities taxes	0	0	3	0	0	3	0	0	3	0	0	3	15
Petroleum business taxes	49	49	53	57	58	54	53	49	53	49	49	48	619
Other taxes	**-**	**-**	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**119**
Real estate transfer tax	-	-	12	12	12	12	12	12	12	12	12	12	119
TOTAL	**93**	**92**	**123**	**117**	**122**	**137**	**113**	**107**	**131**	**108**	**104**	**119**	**1,367**

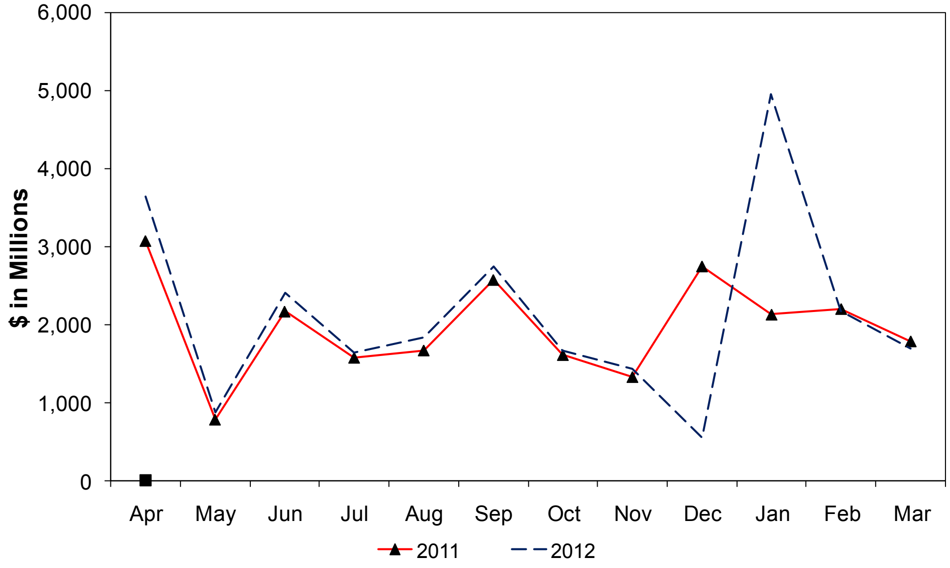
DEBT SERVICE FUNDS 2011-12 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	**1,210**	**292**	**932**	**547**	**612**	**975**	**561**	**502**	**1,060**	**1,650**	**724**	**563**	**9,627**
User taxes and fees	**212**	**206**	**275**	**215**	**221**	**291**	**213**	**214**	**265**	**231**	**193**	**267**	**2,802**
Sales and use taxes	212	206	275	215	221	291	213	214	265	231	193	267	2,802
Business taxes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other taxes	**52**	**52**	**40**	**40**	**40**	**40**	**40**	**40**	**40**	**40**	**40**	**40**	**501**
Real estate transfer tax	52	52	40	40	40	40	40	40	40	40	40	40	501
TOTAL	**1,473**	**550**	**1,247**	**802**	**873**	**1,306**	**814**	**756**	**1,365**	**1,920**	**956**	**870**	**12,930**

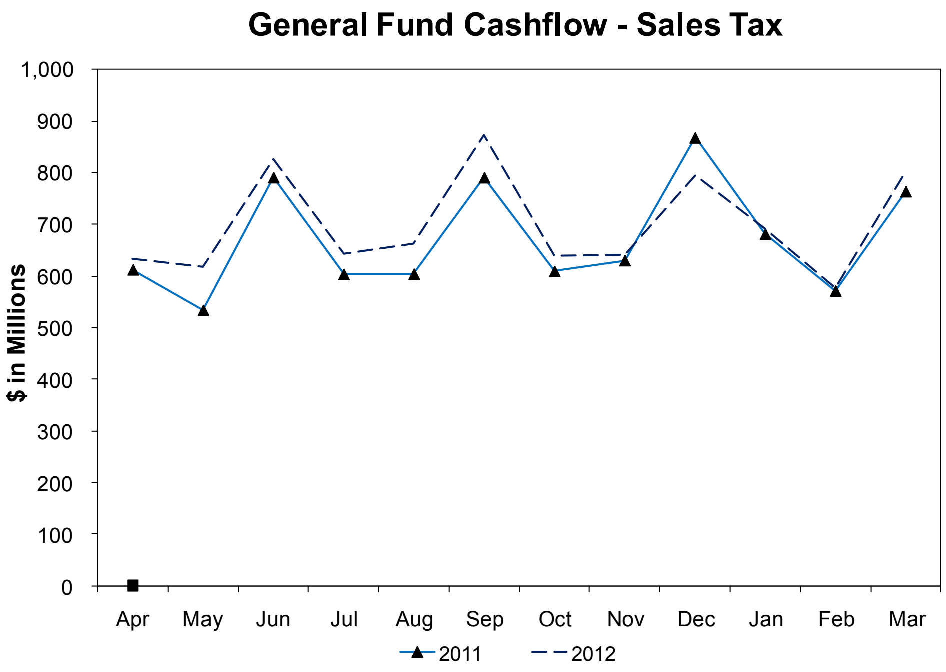
General Fund Cashflow - TotalTaxes

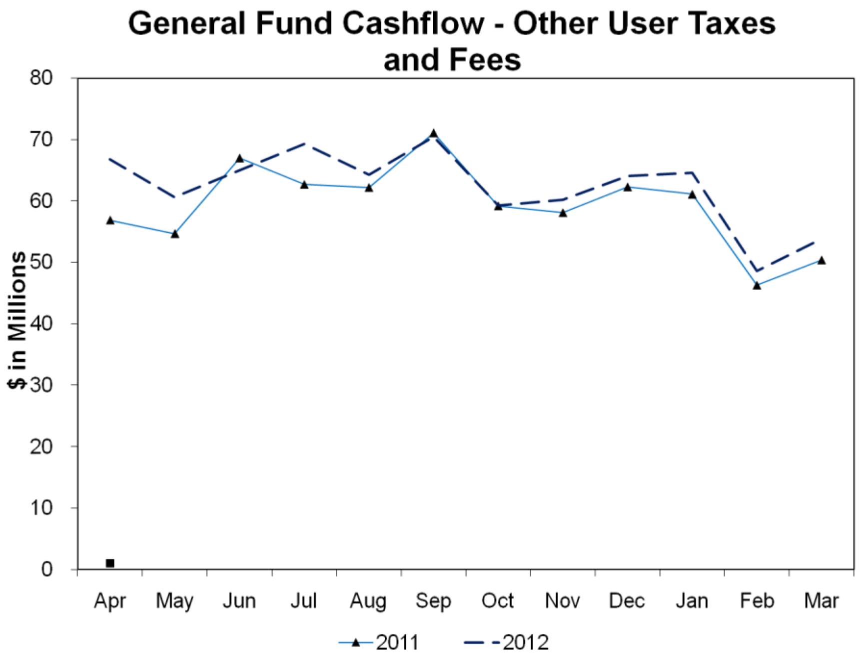


General Fund Cashflow - Personal Income Tax

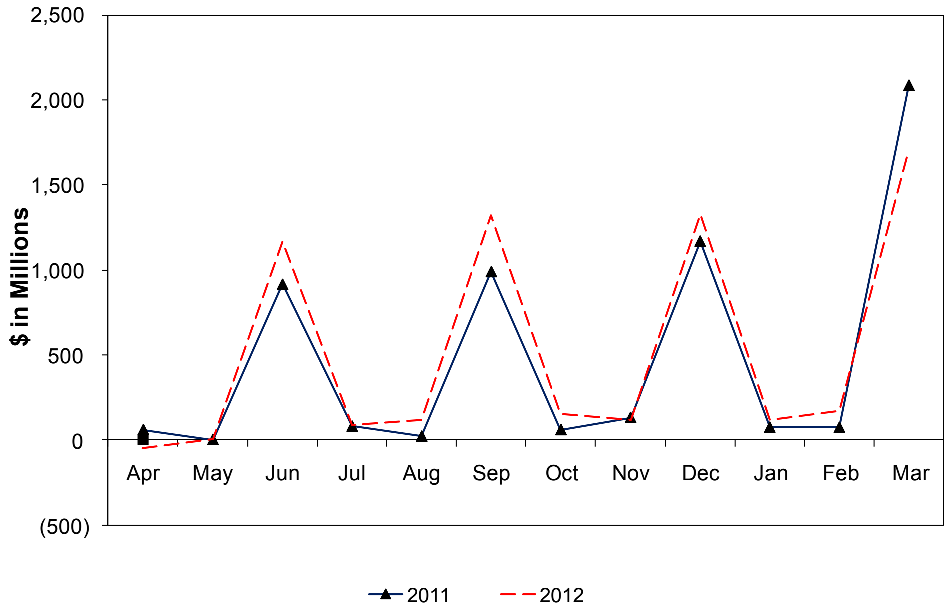


CASH FLOW

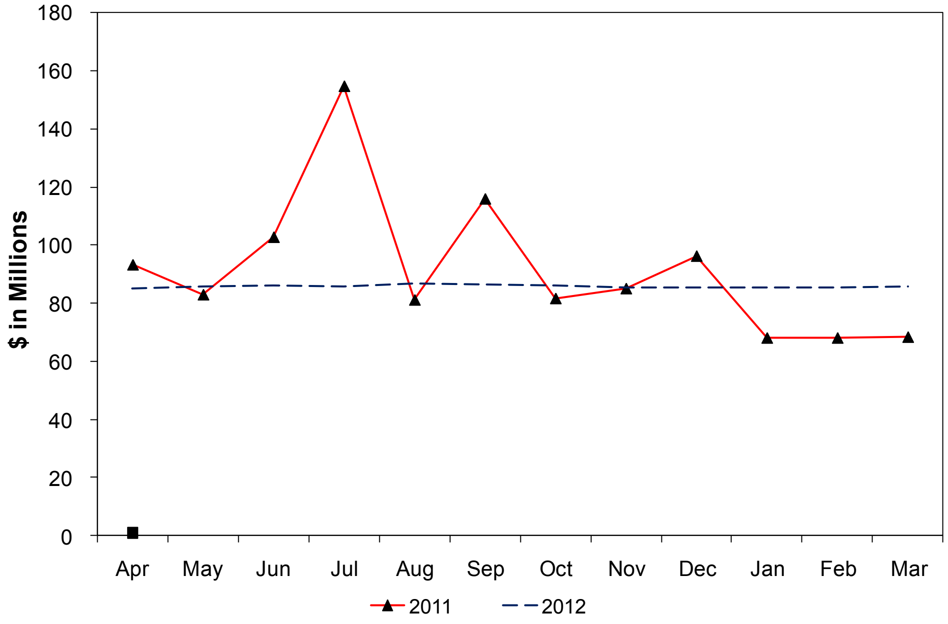

General Fund Cashflow - Sales Tax
$ in Millions
1,000
900
800
700
600
500
400
300
200
100
0
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
2011
2012


General Fund Cashflow - Other User Taxes and Fees
$ in Millions
80
70
60
50
40
30
20
10
0
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
2011
2012

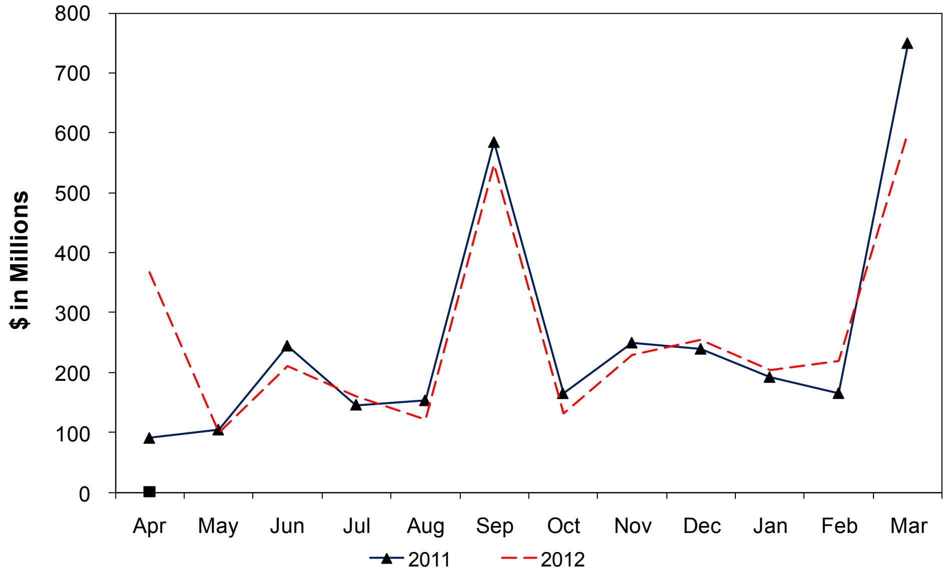
General Fund Cashflow - Business Taxes



General Fund Cashflow - Other Taxes



General Fund Cashflow - Miscellaneous Receipts and Federal Grants



RESULTS TO DATE

April-December Results vs. the Mid-Year Update Projections

Cumulative results for the April to December period are $1.9 billion above the Mid-Year forecast on a General Fund basis, mainly due to timing of STAR payments.

Personal Income Tax

April through December General Fund personal income tax receipts of $17.5 billion were $2.3 billion above the Mid-Year forecast, mainly due to a delay of STAR transfers from December 2010 to January 2011 ($2.4 billion), lower-than-expected refunds ($419 million), and lower RBTF transfer ($67 million), offset by lower-than-expected gross receipts ($687 million).

User Taxes and Fees

April through December General Fund user taxes and fees were $28.7 million more than estimated due to stronger-than-anticipated sales and use tax collections ($26.5 million) and in cigarette and tobacco tax collections ($2.1 million).

Business Taxes

Year-to-date General Fund business tax receipts cash flow was $194 million lower-than-estimated. The variance is attributable to lower-than-projected receipts from the corporate franchise tax ($122 million), corporation and utilities taxes ($25 million), and insurance taxes ($83.9 million), partially offset by higher-than-projected bank tax ($36.9 million) receipts.

Other Taxes

April through December General Fund tax receipts were $61.9 million higher than the Mid-Year estimate due to higher estate tax payments.

Miscellaneous Receipts and Federal Grants

General Fund miscellaneous receipts and Federal grants were $34.1 million above Financial Plan estimates mainly due to higher-than-expected abandoned property transfers ($52.2 million) and licenses and fees receipts ($21.2 million), which are slightly offset by lower-than-expected receipts from medical provider assessments ($39.2 million).

All Other

The remainder of the change from the Mid-Year Update was due to decreases in transfers from other funds ($78.2 million).

April- December Results vs. Enacted Budget Projections

Cumulative results for the April to December period are $1.6 billion above the Enacted Budget, mainly due to timing of STAR payments.

Personal Income Tax

April through December General Fund personal income tax receipts of $17.5 billion were $2.1 billion above Enacted Budget projections. The variance is mainly due to a delay of STAR transfers from December 2010 to January 2011 ($2.4 billion), lower-than-expected refunds ($409 million), and lower RBTF transfer ($118 million), offset by lower-than-expected gross receipts ($879 million).

User Taxes and Fees

April through December General Fund user taxes and fees were $66.5 million below Enacted Budget projections. Due to slightly weaker than expected economic conditions, sales tax receipts are down roughly $66 million from Enacted Budget projections.

Business Taxes

Year-to-date General Fund business tax receipts fell below Enacted Budget projections by $378.8 million. The largest component of this shortfall, or $329 million, was in corporate franchise tax receipts, and resulted from a $189.5 million over-estimation of current year liability and lower audit receipts ($111.8 million). Bank tax receipts were $120 million higher-than anticipated as a result of higher-than-expected payments on current year liabilities, higher audits and lower refunds. Insurance taxes were $90.1 million below Enacted Budget cash flow estimates the result of lower receipts on current year liability while corporation and utilities taxes were lower-than-projected by $79.7 million. Lower gross receipts and lower audits account for this unfavorable variance in corporation and utilities taxes.

Other Taxes

Year-to-date General Fund other taxes were $82.9 million above the Enacted Budget forecast largely due to strong estate tax receipts.

Miscellaneous Receipts and Federal Grants

General Fund miscellaneous receipts and Federal grants were $96.8 million above Enacted Budget projections due mainly to higher -than-anticipated collections from licenses and fee collections ($48.2 million), and abandoned property ($40.8 million).

All Other

The remainder of the change from the Enacted Budget projections was due to a decrease in transfers from other funds ($44.8 million).

REVENUE ACTIONS

REVENUE ACTIONS

The 2011-12 Budget includes a net positive increment of just over $456 million in All Funds receipts reflecting the revenue actions contained in this budget. The accompanying table summarizes the revenue proposals by type of action required and provides a short description of the proposal, the date that the proposal will become effective, the Fund type where revenue will be deposited, the last time an action was taken in the area, and the incremental revenue gain or loss from the proposed action. This table represents gross revenue adds and reductions without any adjustments for associated spending changes, movements across funds or General Fund spending offsets.

REVENUE ACTIONS LIST

Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	Annual Revenue SFY 2011-12	Annual Revenue SFY 2013-14
						(000s)	(000s)
I. TAX AND ASSESSMENT ACTIONS							
			Tax and Assessment Actions-Subtotal			**$0**	**$0**
II. NEW OR INCREASED FEES							
CFS	Establish fee for Statewide central registrar clearance checks - 4/1/11	SFMR	N/A	$60	N/A	$11,922	$11,922
Racing	Racing purse surcharge - 4/1/11	SFMR	0%	2.75%	N/A	$7,600	$8,500
			New or Increased Fees-Subtotal			**$19,522**	**$20,422**
III. LOOPHOLE CLOSING ACTIONS							
Tax	Repeal exemption for large cooperative insurance companies - 4/1/11	GFTX	N/A	N/A	N/A	$22,000	$16,000
			Loophole Closing Actions -Subtotal			**$22,000**	**$16,000**
IV. TAX ENFORCEMENT ACTIONS							
Tax	Offset certain tax debts against lottery winnings - 4/1/11	GFTX	N/A	N/A	N/A	$5,000	$10,000
Tax	Improve compliance through tax modernization initiatives - 4/1/11	GFTX	N/A	N/A	N/A	$200,000	$200,000
			Tax Enforcement Actions-Subtotal			**$205,000**	**$210,000**
V. OTHER REVENUE ACTIONS							
Lottery	Provide free play allowance to all tracks - 4/1/11	SFMR	N/A	N/A	N/A	$38,000	$38,000
Lottery	Increase the number of 75% instant games - 4/1/11	SFMR	N/A	N/A	N/A	$4,000	$4,000
Lottery	Remove location restrictions on Quick Draw - 4/1/11	SFMR	N/A	N/A	N/A	$10,000	$44,000
Lottery	Increase prize payout percentage on multi-jurisdictional games - 4/1/11	SFMR	N/A	N/A	N/A	$0	$0
Lottery	Multi-state progressive video lottery games - 4/1/11	SFMR	N/A	N/A	N/A	$2,000	$3,000

Key:
CF = Capital Projects Fund
DF = Debt Service Funds
GF = General Fund
MR = Miscellaneous Receipts
SF = Special Revenue Funds
TX = Tax

Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	Annual Revenue SFY 2011-12	Annual Revenue SFY 2013-14
						(000s)	(000s)
Lottery	Various Lottery sales efficiency actions - 4/1/11	SFMR	N/A	N/A	N/A	$100,000	$109,000
OSC	Reduce various abandoned property dormancy periods - 4/1/11	GFMR	N/A	N/A	2010	$55,000	$15,000
					Other Revenue Actions-Subtotal	**$209,000**	**$213,000**
VI. NEW, REFORMED, OR EXPANDED TAX CREDITS							
Tax	Reform Excelsior jobs program - 4/1/11	GFTX	N/A	N/A	N/A	$0	$0
Tax	Expand the Low Income Housing Tax credit - 4/1/11	GFTX	N/A	N/A	N/A	$0	$0
					New or Expanded Tax Credits – Subtotal	**$0**	**$0**
VII. TECHNICAL CORRECTIONS AND EXTENDERS							
NYPA	Power for Jobs program - 4/1/11	GFMR	N/A	N/A	N/A	$0	$0
Tax	Authorize New York to participate in a national compact to collect excess lines insurance tax - 4/1/11	GFTX	N/A	N/A	N/A	$0	$0
Tax	Make tax shelter reporting provisions permanent - 4/1/11	GFTX	N/A	N/A	N/A	$0	$0
Tax	Make permanent major provisions of the bank tax and extend temporary GLB provisions - 4/1/11	GFTX	N/A	N/A	N/A	$0	$0
Tax	Extend the Alternative Fuels tax exemption - 4/1/11	GFTX/ CFTX	N/A	N/A	N/A	$0	$0
Tax	Extend Financial Services ITC for one year - 4/1/11	GFTX	N/A	N/A	N/A	$0	$0
Tax	Provide Empire State Development with authority to decertify noncompliant Empire Zones (EZ) program participants - 4/1/11	GFTX	N/A	N/A	N/A	$0	$0
Tax	Pari-Mutuel extender - 4/1/11	GFTX	N/A	N/A	N/A	$0	$0
Tax	Modernize certain fuel definitions - 4/1/11	GFTX	N/A	N/A	N/A	$0	$0
Tax	Simplify the motor vehicles fees distribution - 4/1/11	CFTX/ SFTX	N/A	N/A	N/A	$0	$0
					Technical Corrections and Extenders -Subtotal	**$0**	**$0**
					ALL REVENUE ACTIONS – GRAND TOTAL	**$455,522**	**$459,422**

Key:

CF = Capital Projects Fund	GF = General Fund	SF = Special Revenue Funds
DF = Debt Service Funds	MR = Miscellaneous Receipts	TX = Tax

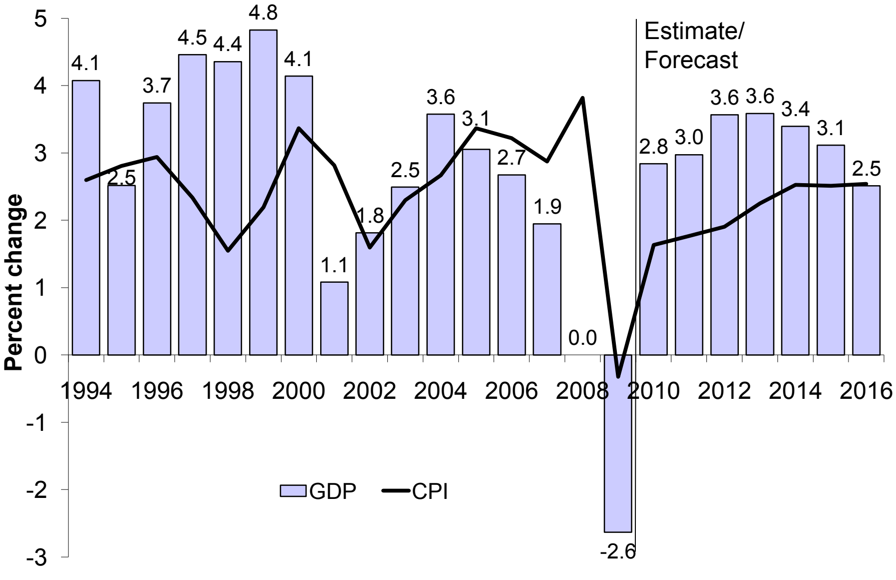
ECONOMIC BACKDROP

ECONOMIC BACKDROP

OVERVIEW

The nation's recovery from the longest and most severe recession since the 1930s has been a difficult road, surviving a number of shocks and remaining on a slow but steady expansionary path. However, the recovery has failed to build sufficient momentum to breathe life into the labor market, despite a $787 billion Federal spending program. Private sector employment has risen for 12 consecutive months, but job growth has barely exceeded growth in the labor force. By the end of 2010, the unemployment rate was still less than a percentage point below its October 2009 peak of 10.1 percent, and only about 1.3 million of the 8.5 million private sector jobs that were lost have returned. Although the unwinding of the largest inventory correction since the 1930s appeared to be fueling the nation's recovery early on, final sales remained weak. The housing market's response to a government credit program was mostly transitory, with more than one fifth of the nation's homes reported still to be "underwater," saddled with mortgage debt that exceeds their market value. Credit markets are improving, but only gradually, particularly for small businesses.

Figure 1
Outlook for Real U.S. GDP Growth and Inflation



Note: Displayed values pertain to GDP growth.
Source: Moody's Economy.com; DOB staff estimates.

At present, most private economists judge the probability of a double-dip recession to be negligible. But toward the end of last year, both the monetary and fiscal authorities had come to question the capacity of the private economy to take up the slack once Federal spending petered out. These doubts prompted the initiation of new programs by both the Congress and the Federal Reserve to stimulate economic activity. This new stimulus is expected to strengthen existing trends that were already providing some forward motion to the economy, including a rebuilding of inventories, global growth, low long-term interest rates, rising equity markets, and renewed private sector investment. Indeed, the public boost to private sector momentum may already have become evident. Preliminary data for the fourth quarter of 2010 indicates that final sales growth, which was unusually weak during the early stage of the recovery, is picking up. Real household spending of over 4 percent is estimated for the fourth quarter, which, if realized, would represent the first quarter of such growth since 2006Q4. The Budget Division projects real U.S. GDP growth of 3.0 percent for 2011, following growth of 2.8 percent for 2010 (see Figure 1).

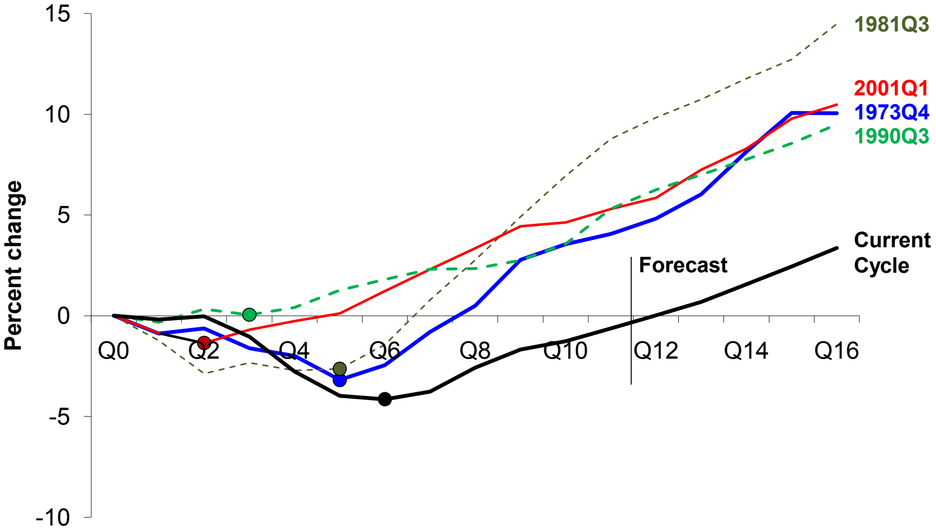
Going forward, the economy will continue to be supported by expansionary monetary and fiscal policy, with the impact of the overhang from the credit/housing market bubble gradually waning with time. However, due to the lag between economic activity and revenue growth, state and local governments are likely to remain under intense fiscal pressure. With the labor market expected to gain strength over the course of the year, the unemployment rate is expected to gradually decline, ending the year at 9.0 percent. Thus, the labor market is slowly improving, but the high degree of slack remains. Although energy prices have recently surged, the absence of any significant wage pressure is expected to delay their transmission into the “core” measure of inflation that excludes the volatile food and energy components, at least for the moment. Inflation of 1.8 percent is projected for 2011, as measured by growth in the Consumer Price Index, following 1.6 percent for 2010.

The New York State economy’s first year of recovery has also been shaky. The State economy appeared to start 2010 on a strong footing; total employment grew 0.3 percent on a year-over-year basis in 2010Q2, the first quarter of growth since the third quarter of 2008. However, with the equity market correction that began in April triggered by the euro-zone debt crisis, the State’s economic recovery appeared to take a pause, consistent with national trends. But by the end of the third quarter, financial market activity began to rebound. That development, combined with strong tourist activity and the support of Federal stimulus programs, appears to have put the State’s economic recovery back on track. The Budget Division projects State employment growth of 0.7 percent for 2011, on an annual average basis, following a decline of 0.1 percent for 2010. Levels of financial market activity remain well below their 2007 peak levels, and a substantial amount of uncertainty surrounds finance industry profitability and executive compensation as a result of the recently passed financial reform package. State wages are projected to rise 3.2 percent in 2011, following growth of 4.0 percent in 2010. Both of these growth rates are well below historical averages.

THE NATIONAL ECONOMY

Historically, the deepest recessions have tended to bounce back the fastest. But five quarters after the official business cycle trough, real U.S. GDP had still not surpassed its pre-recession peak. Based on Budget Division estimates, that peak was finally passed during 2010Q4. Figure 2 plots the cumulative path of real GDP for the six most recent business cycles, excluding the short 1980 cycle, 16 quarters from the cyclical peak. The two recessions that began in 1990 and 2001, respectively, were very mild from the standpoint of lost output, and the subsequent recoveries moderately paced. In contrast, the 1973-75 and 1981-82 recessions were much more severe and the subsequent recoveries much stronger. The current recovery's long duration before re-crossing the zero line is unprecedented during the postwar period, and is testament to both the length and depth of the recession.

Figure 2
Real U.S. GDP Growth 16 Quarters Following Cyclical Peak



Note: Plotted data represent cumulative real U.S. GDP growth 16 quarters out from the cyclical peak quarter (indicated by the labels); large circles indicate official cyclical troughs.
Source: Moody's Economy.com; DOB staff forecast.

The national economy has received a large dose of government support, and both the Federal Reserve and U.S. Congress are committed to continuing that aid, supporting the Budget Division forecast for real U.S. GDP growth accelerating to well over 3 percent for 2012 and beyond. The 2007-2009 recession was the longest and most severe since the 1930s, with the U.S. economy sustaining a 4.1 percent peak-to-trough loss in output over six quarters. Had it not been for both activist monetary and fiscal policy, the duration of the recession would almost certainly have been even longer. Moreover, both the monetary and fiscal authorities have embarked on new rounds of stimulus going into 2011. Given the risks associated with continued activism, including accelerating inflation and a widening government budget deficit, the wisdom of these actions will undoubtedly be debated for many years to come.

TABLE 1
ARRA FUNDING SUMMARY

	Total Funds ($B)	Funds Paid Out* ($B)	Percent Paid Out
Tax Benefits	$288	$243	85%
Contracts, Grants & Loans	$275	$173	63%
Entitlements	$224	$178	80%
Total	**$787**	**$595**	**76%**

* As of January 8, 2011.
Source: www.recovery.gov.

Federal fiscal policy support has taken several forms. In February 2009, the Congress enacted the American Recovery and Investment Act (ARRA), a comprehensive $787 billion package that provided extended unemployment benefits, supplemental nutritional assistance, aid to state and local governments, temporary tax relief for individuals and businesses, funding for new construction projects, and research and development.[1] About three quarters of these funds have been paid out (see Table 1), implying approximately $200 billion of additional spending to be paid out during the forecast period.

According to a recent CBO report, real GDP is estimated to be between 1.4 and 4.1 percentage points higher in the third quarter of 2010 due to the impact of ARRA.[2] In addition, the unemployment rate is estimated to be between 0.8 and 2.0 percentage points lower, and the level of employment between 1.4 million and 3.6 million higher due to the spending program. Table 2 presents CBO's estimates for the impact of ARRA on output and employment for the entire 2009 and 2010 calendar years.

TABLE 2
CBO ESTIMATES OF ARRA IMPACT
Q4 OVER Q4 PERCENTAGE POINT CHANGES

	2009		2010	
	Low	High	Low	High
Real GDP	1.5	3.4	1.1	3.5
Employment	0.9	1.9	1.3	3.5

Source: CBO, November 2010.

Just before several major provisions of Federal tax law were about to expire at the end of last year, the Congress passed and the President signed into law the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010. This piece of legislation extended for two more years the tax cut provisions incorporated in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA).[3] The new law also

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[1] CBO has raised its cost estimate of ARRA to $814 billion.

[2] For more detail please see "Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output From July 2010 through September 2010", CBO, November 2010, <http://www.cbo.gov/ftpdocs/119xx/doc11975/11-24-ARRA.pdf>, viewed November 30, 2010.

[3] EGTRRA created a new 10-percent regular income tax bracket for a portion of taxable income that was previously taxed at 15 percent. The law also reduced the remaining existing marginal income tax rates from 28 percent, 31 percent, 36 percent and 39.6 percent to 25 percent, 28 percent, 33 percent, and 35 percent, respectively. JGTRRA reduced the top capital gains tax rate from 20 to 15 percent and the top individual rate on dividends from 35 to 15 percent.

extends some provisions of ARRA, creates a one-year "payroll tax holiday," and extends unemployment benefits for long-term jobless workers and some low-income tax credits.

As indicated in Table 3, the cost of the new tax relief act is valued at close to $900 billion through 2015, although the impact is largely concentrated in the 2011 and 2012 tax years, which span Federal fiscal years 2011, 2012, and 2013.[4] Much of the cost is associated with the extension of personal income tax relief under EGTRRA ($310 billion for 2011-15 fiscal years). The bill's temporary payroll tax cut, which reduces the employee contribution to the Social Security Trust Fund from 6.2 percent to 4.2 percent, is valued at $112 billion for 2011. This provision replaces the Making Work Pay program implemented under ARRA, which reduced personal income tax withholding and phased out at $75,000 for individuals and $150,000 for joint filers. Although the payroll tax cut is twice as large as Making Work Pay, it is less targeted toward low-income households, which have the highest marginal propensities to spend, and therefore is not expected to be proportionately more stimulative.

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[4] The total value of the new tax relief package does not represent $900 billion net additional stimulus relative to past Budget Division forecasts. For example, in the Mid-year forecast, DOB assumed that the Bush tax cuts would only be allowed to expire for the highest earners and that both unemployment benefits and the Making Work Pay relief would get extended. Thus, only the value of extending the tax cuts for high income earners ($60 billion) and the excess of the value of the payroll tax cut over the value of Making Work Pay ($52 billion) represent net new stimulus in the Executive Budget forecast.

TABLE 3

Estimated Impact of "Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010"

Federal Fiscal Year	**2011**	**2012**	**2013**	**2011-15**
Extension of Tax Relief	**-99,025**	**-187,395**	**-105,322**	**-407,586**
Extension of 2001 Tax Relief (EGTRRA)	**-82,643**	**-155,877**	**-71,817**	**-310,340**
Individual income tax rate relief	-68,358	-104,843	-34,309	-207,510
The child tax credit	-7,075	-35,565	-29,056	-71,697
Marriage penalty relief	-6,331	-13,386	-7,155	-26,872
Education Tax Relief	-790	-1,648	-837	-3,279
Other Incentives for Families and Children[1]	-87	-430	-458	-973
Alaska Native Settlement Trusts	-2	-5	-2	-9
Extension of 2003 Tax Relief (JGTRRA)	**-15,154**	**-11,200**	**-10,957**	**-53,151**
Capital gains tax	-10,477	2,355	-1,915	-25,877
Tax on Dividends	-4,677	-13,555	-9,042	-27,274
Extension of 2009 Tax Relief (ARRA)	**-1,228**	**-20,318**	**-22,548**	**-44,095**
Extension of American opportunity tax	-1,194	-7,094	-9,277	-17,566
Childcare Credit earnings treshold	0	-9,826	-9,917	-19,743
Increase in earned income tax credit percentage	-18	-1,845	-1,822	-3,685
EIC modification and simplification	-16	-1,553	-1,532	-3,101
Alternative Minimum Tax Relief	**-85,833**	**-67,597**	**16,754**	**-136,676**
Estate and Gift Tax Relief	**-4,546**	**-28,050**	**-29,349**	**-67,515**
Extension of Investment Incentives	**-55,430**	**-58,224**	**315**	**-65,054**
Extension of UI Benefits	**-34,515**	**-21,642**	**-100**	**-56,435**
Employee Payroll Tax Holiday	**-67,239**	**-44,414**	**0**	**-111,653**
Extension of Certain Expiring Provisions[2]	**-27,546**	**-15,587**	**-2,046**	**-47,919**
NET TOTAL	**-374,134**	**-422,909**	**-119,748**	**-892,838**

[1] Includes dependent care tax credit, adoption credit and employer provided childcare credit.

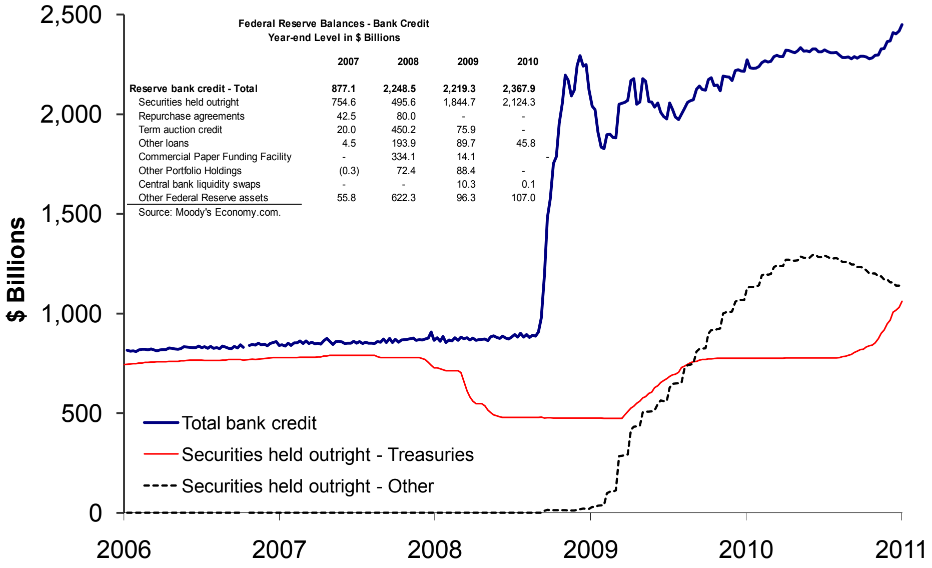
[2] Includes incentives for clean energy, other research and development, and individual and business tax relief programs.

Source: Joint Committee on Taxation; Congressional Budget Office.

Months before the tax compromise was signed into law, the Federal Reserve had signaled a renewed commitment to supporting the nation's seemingly fragile recovery. Figure 3 illustrates how expansive the central bank's programs have been – the asset side of its balance sheet rising from $877 billion at the end of 2007 to almost $2.4 trillion at the end of 2010 – and suggests the challenge that lies ahead for both the economy and the central bank in reining in its balance sheet as economic conditions improve. Indeed, early in 2010 the Federal Reserve conducted tests of methods to implement its exit strategy. But by the spring, a deteriorating economic outlook and an unresponsive unemployment rate led the Federal Reserve to announce that it would maintain its holdings of securities at their present levels by reinvesting the principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities. Figure 3 shows that as its non-Treasury holdings started to mature in the middle of 2010, the central bank promptly replaced them with Treasury securities, keeping the total volume of assets relatively constant.

At its November meeting the Federal Open Market Committee (FOMC) said that it would not only continue the reinvestment program, but would also expand the central bank's balance sheet through the purchase of an additional $600 billion of long- and medium-term Treasury securities. It expects these purchases to be completed by the end of the second quarter of 2011, though the FOMC has also said that it will monitor this new purchase program as to both size and pace of purchases, with an eye to fostering "maximum employment and price stability." The announcement appeared to coincide with a rise in confidence as reflected in equity price growth and eventually rising interest rates, although the relationship among these events has become a subject of much debate.

Figure 3
The Expansion of the Federal Reserve Balance Sheet



Federal Reserve Balances - Bank Credit
Year-end Level in $ Billions

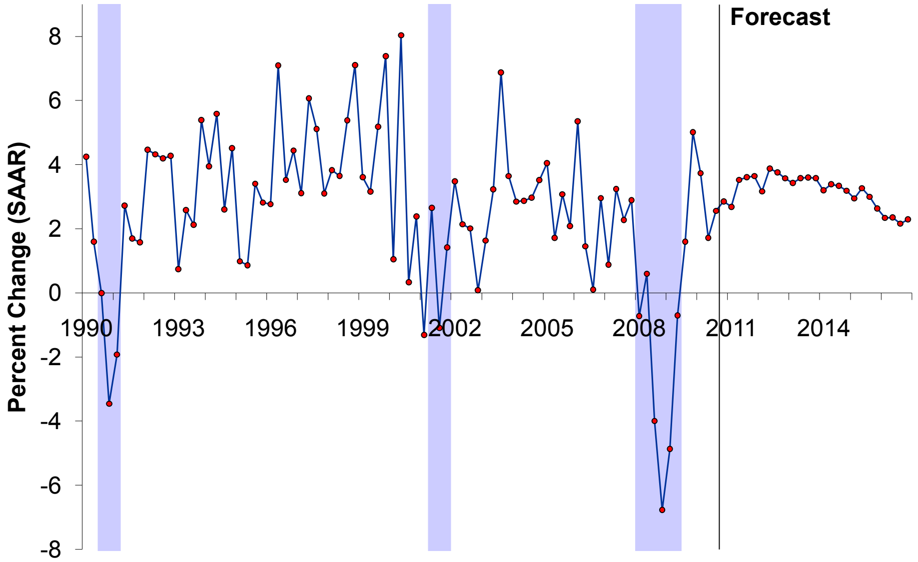
	2007	**2008**	**2009**	**2010**
Reserve bank credit - Total	**877.1**	**2,248.5**	**2,219.3**	**2,367.9**
Securities held outright	754.6	495.6	1,844.7	2,124.3
Repurchase agreements	42.5	80.0	-	-
Term auction credit	20.0	450.2	75.9	-
Other loans	4.5	193.9	89.7	45.8
Commercial Paper Funding Facility	-	334.1	14.1	-
Other Portfolio Holdings	(0.3)	72.4	88.4	-
Central bank liquidity swaps	-	-	10.3	0.1
Other Federal Reserve assets	55.8	622.3	96.3	107.0

Source: Moody's Economy.com.

Note: Other category includes Federal agency debt securities and mortgage back securities.
Source: Moody's Economy.com.

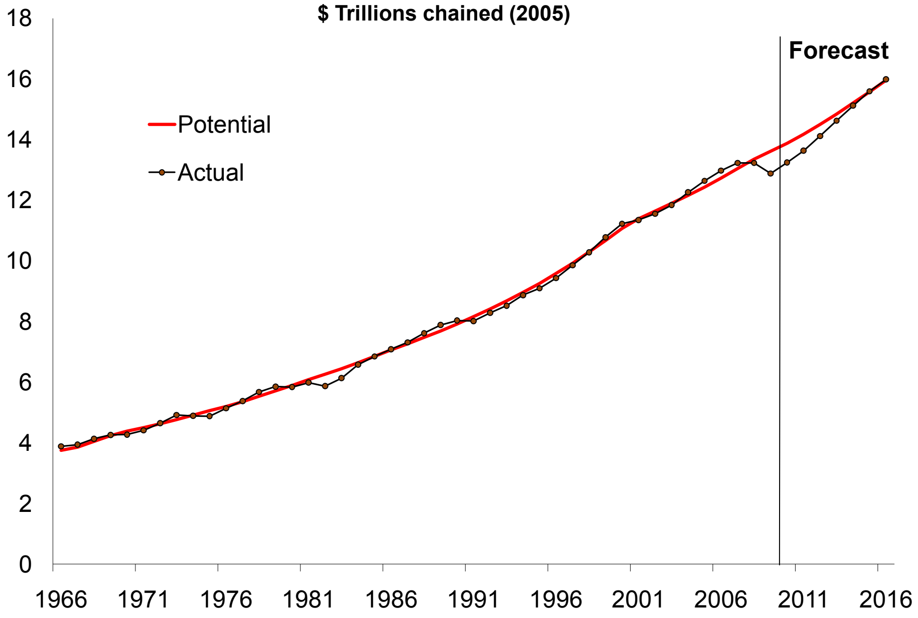
With the economy picking up momentum starting in the fourth quarter, the handoff from the public to the private sector appears to be back on track. As a result, barring any substantial positive or negative shocks, the economy is expected to grow at an average annualized quarterly growth rate of about 3.5 percent for the next three years before gradually tapering off to its long-run pace of about 2.4 percent (see Figure 4). Box 1 provides a sobering reminder of just how far there is to go before the economy recovers its prerecession peaks in four key monthly economic indicators. At the pace implied by the Budget Division forecast, the national economy is not expected to reach its "potential" level, defined as the level of output the economy has the capacity to produce given its labor force, capital stock, and technology, until the middle of 2015 (see Figure 5).

Figure 4
Real US GDP Growth



Note: Shaded areas represent US recessions.
Source: Moody’s Economy.com; DOB staff estimates.

Figure 5
Real US GDP: Actual vs. Potential
$ Trillions chained (2005)

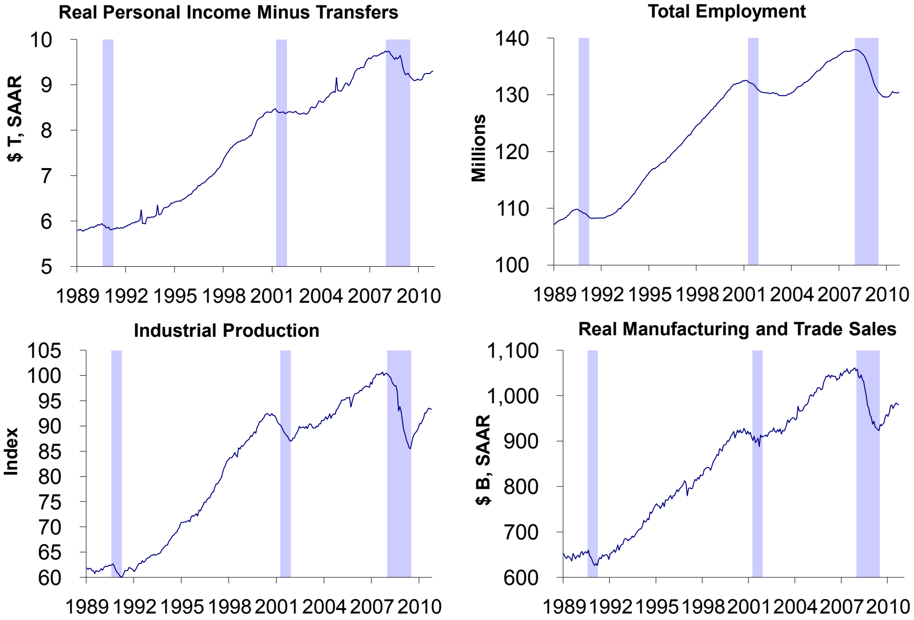


Source: Moody’s Economy.com; DOB staff estimates.

BOX 1
RECOVERING FROM THE GREAT RECESSION

Business cycles are defined by a group of private economists at the National Bureau of Economic Research (NBER) Business Cycle Dating Committee. Although the Dating Committee designated June 2009 as the trough of the 2007-2009 recession, five quarters later, economic output, as defined as real U.S. GDP was still below its pre-recession peak, unprecedented during the postwar period. The severity of the recession is well illustrated by the monthly series the Dating Committee uses to determine business cycle peaks and troughs. These series include: real personal income minus transfers, nonfarm payroll employment, industrial production, and real manufacturing and trade sales.

NBER Recession Indicators



Note: Shaded areas represent U.S. recessions.
Source: Moody's Economy.com.

The four monthly economic series that appear above are generally considered coincident indicators. Three of the four series reached a trough in June 2009, with the fourth indicator, employment, starting to turn up in January 2010, although the hiring and layoff of Census workers added some additional volatility to the job counts. Each of these data series is a stark reminder of why this last downturn has come to be known as the Great Recession.

Labor Market: Firms Doing More with Less

The nation's labor market is expected to gradually improve over the course of 2011, with total employment growing 1.3 percent on an annual average basis, following a decline of 0.5 percent in 2010. The private sector has added jobs each month since January 2010, only six months beyond the official end of the recession in June 2009.[5] This contrasts with the prior recovery, which saw private sector job losses in 16 of the

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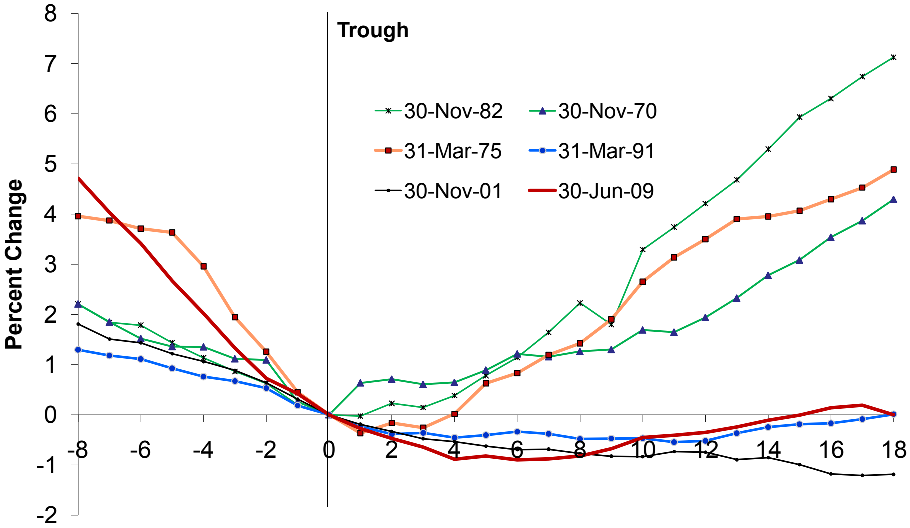
[5] When BLS publishes its 2010 benchmark revision on February 4, 2011, the March 2010 level of employment will be revised down by 366,000 jobs. Thus, it is possible that the labor market turning point occurred later than currently reflected in the data; see <http://www.bls.gov/ces/cesprelbmk.htm>, viewed January 14, 2011.

first 20 months following the recession trough. Figure 6 examines labor market behavior before and after the last six recession troughs. The difference between the most recent three economic recoveries and the prior three is striking. Although there is likely no single factor that distinguishes the two groups, the competitive pressures wrought by increasing globalization and the restructuring of U.S. corporations in response to those pressures are doubtlessly key.

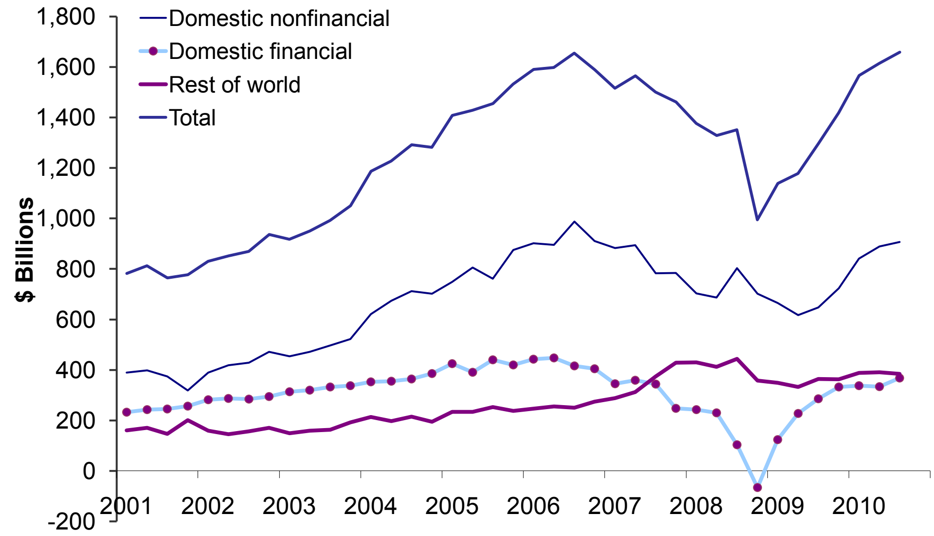
Figure 6
US Private Employment Before and After Recession Trough



Note: The data represent cumulative percent changes relative to the level of employment at the trough.
Source: Moody's Economy.com; DOB staff estimates.

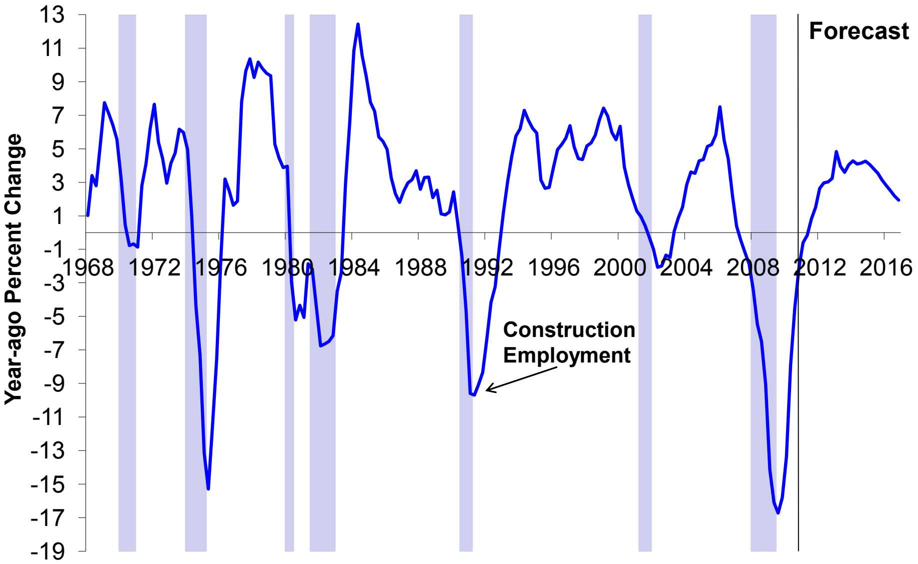
There is currently much debate over the causes of the current recovery's slow pace of job growth and their implications for the labor market going forward. Foremost is the slow pace of output growth, which has characterized all of the last three recoveries, as illustrated in Figure 2. Global competitive pressures may have altered the behavior of large multinational firms during downturns, with firms reducing their costs by accelerating the transfer of production capacity overseas. The impact of these transfers and their impact on efficiency appear in the profits data rather than the productivity data. Real output has yet to recover its prerecession peak, but Figure 7 shows that corporate profits have indeed surpassed their prior peak in total, though the same cannot be said of the individual components. "Rest of world" profits were notably the least affected by the downturn. It is also noteworthy that while credit markets are improving, credit remains tight for small businesses that are also the least likely to have overseas operations.

Figure 7
U.S. Corporate Profits



Source: Moody's Economy.com.

Figure 8
The Construction Sector Will Be Late to the Expansion



Note: Shaded areas represent U.S. recessions.
Source: Moody's Economy.com; DOB staff estimates.

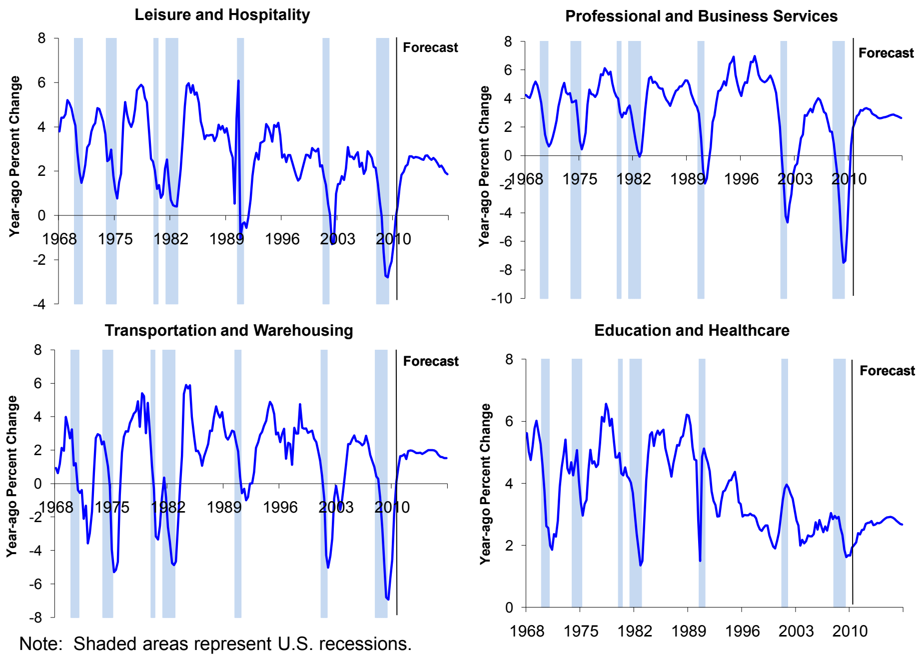
With the problems plaguing both the residential and commercial real estate sectors, a traditional support to cyclical growth has been missing entirely from this expansion (see Figure 8). The housing sector is closely associated with other areas of consumer demand that have also been depressed during this expansion. The rising cost of hiring and the uncertainty surrounding the cost of implementing health care reform may also be contributing to the sluggish pace of employment growth.

BOX 2
ARE SERVICES INDUSTRIES BECOMING MORE CYCLICAL?

Figure 9 clearly shows that the nation’s services industries have become much more cyclical since the 1960s, diminishing the argument that the transformation from an industrial to a services-based economy has been a moderating force. An industry is deemed more cyclically sensitive if either the amplitude of its own cycles has become greater or if slower growth during downturns has evolved into outright declines. But a close examination of the individual services-producing industries indicates that they are not all created equal. For example, the figure below shows how increasingly cyclical professional and business services employment has become since 1968, a development that could be related to global economic integration and the growing volume of overseas sales of services. The U.S. Bureau of Economic Analysis (BEA) data indicate that in the 40 years between 1968 and 2008, real services exports have increased 784 percent to $491 billion. Although the volume of real goods exports is larger ($1,157 billion) and has grown faster over the period (over 1000 percent), the growth in services exports is still impressive considering the intrinsically local nature of much of services production. Both real goods and services exports fell in 2009.

The fastest growing component of exports services by far is “other private services,” which comprises about 44 percent of all services exports and has grown over 7000 percent since 1968. BEA reports that business, professional, and technical services account for nearly half of this category, which includes computer and information services; management and consulting services; research and development and testing services; operational leasing services; installation, maintenance, and repair of equipment; and legal services. Another major category of “other private services” is financial services, which includes brokerage, underwriting, and private placement services; financial management, financial advisory, and custody services; credit card and other credit related services; and securities lending, electronic funds transfer, and other financial services. Also included are insurance services (mainly reinsurance) and telecommunications services.

Employment Growth in Selected Service Sectors

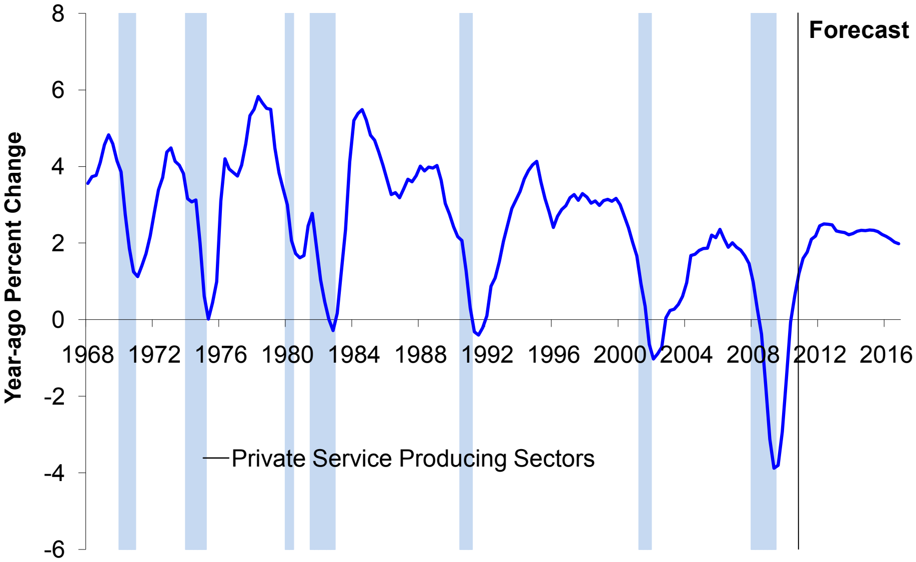


Note: Shaded areas represent U.S. recessions.
Source: Moody’s Economy.com; DOB staff estimates.

Also among the fastest growing components of services exports are travel services, which include purchases by foreign visitors to the United States for food, lodging, recreation, gifts, and other small expenses related to a foreign visit. Real travel services exports related to foreign tourism and business travel grew over 900 percent between 1968 and 2008 and is likely a factor explaining the increased cyclicality in leisure and hospitality employment over the period. In contrast, those services industries that tend to largely serve local or regional markets appear to be no more cyclical now than four decades ago. For example, the peaks and troughs in transportation and warehousing employment continue to reflect the economy overall, while education and health services jobs appear less cyclical, perhaps due to a more stable demand for healthcare by an aging baby-boomer population.

Over the course of the postwar period, the national economy has gradually been transforming itself from a manufacturing-based economy to a services-based economy. Indeed, there was much speculation only a few years ago that this phenomenon was contributing to what became known as the Great Moderation, the observation, now largely discredited, that economic fluctuations had been gradually dampening over time.[6] However, over the same period, services industries themselves have become more cyclical, as indicated in Figure 9**,** providing less of a cushion during downturns and making them more dependent on employers' confidence that a nascent recovery will endure. For some industries, the amplitude of their cycles has become greater, while for others slower growth during downturns has evolved into outright declines. As the evidence in Box 2 suggests, some of this increased cyclicality may be due to the nation's increasing integration into the global economy.

Figure 9
Is Services Employment Becoming More Cyclical?



Note: Shaded areas represent U.S. recessions.
Source: Moody's Economy.com; DOB staff estimates.

A portion of the current amount of unemployment may be structural. As of the December employment report, the number of long-term unemployed, defined as those without a job for 27 weeks or more, represented 44.3 percent of the total number of unemployed. Although that share is below its May 2010 peak of 45.6 percent, it remains historically high. Workers who have been detached from the workforce for a long period may not be keeping their job skills up to date and may thus be perceived as less employable. In addition, the extension of unemployment benefits may be delaying the search for a new job for some workers.[7] Finally, for some occupations, employers may be having a harder time filling positions during the current recovery than during the prior

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[6] See *2006-07 Executive Budget — Economic and Revenue Outlook*, "Is the Business Cycle in Remission?" p.40. <https://www.budget.ny.gov/pubs/archive/fy0607archive/fy0607app4/appd4.pdf>

[7] A recent study finds that "in the absence of extended benefits, the unemployment rate would have been about 0.4 percentage point lower at the end of 2009." See <http://www.frbsf.org/publications/economics/letter/2010/el2010-12.html>, viewed January 22, 2011.

recoveries, possibly due to a need for specialized skills not prevalent among the currently unemployed.

The impact of Federal stimulus programs, global growth, a gradual revival in household spending, along with continued growth in private business investment will help to ensure that accelerating job growth is sustainable, despite continued weakness in the real estate market. Table 4 shows that well over 2 million jobs will be created in 2011, led by professional and business services; health care and private education; wholesale and retail trade; and leisure, hospitality, and other services. Indeed, management, administrative support, and waste services jobs, the category that contains temporary help services, will continue to make the best showing, portending stronger private job growth going forward. As shown in Figure 10, increases in temporary help employment tend to lead total private sector job growth. The results of a statistical model that measures whether growth in temporary help jobs tends to lead private sector hiring overall indicate that when the former start to grow, the latter can be expected to start growing, on average, three quarters later.[8] With state and local governments continuing to experience intense fiscal pressure, the government sector overall will make virtually no contribution to job growth in the current year.

TABLE 4
JOB GROWTH TO ACCELERATE IN 2011

	2009	2010	2011	
	Dec-Dec (000s)	Dec-Dec (000s)	Q4-Q4 (000s)	% Change
Total Private	(4,714)	1,296	2,302	2.1
Utilities	(5)	(7)	(6)	(1.2)
Construction	(997)	(114)	85	1.5
Manufacturing and Mining	(1,395)	232	107	0.9
Wholesale Trade	(232)	58	114	2.0
Retail Trade	(548)	126	277	1.9
Transportation and Warehousing	(221)	34	62	1.5
Information	(160)	(42)	35	1.3
Finance and Insurance	(221)	(46)	31	0.5
Real Estate, Rental, and Leasing	(119)	(31)	6	0.3
Professional and Technical Services	(297)	4	146	2.0
Management, Admin. Support, and Waste Services	(438)	378	388	4.1
Education Services	33	84	122	3.7
Health Care and Social Assistance Services	287	337	376	2.3
Leisure, Hospitality, and Other Services	(402)	283	430	2.3
Government	(92)	(230)	5	0.0
Total	(4,806)	1,066	2,307	1.8

Source: Moody's Economy.com; DOB staff estimates.

Another promising signal that labor market growth is poised to accelerate is the substantial decline in initial claims for unemployment insurance benefits (see Figure 11). The four-week moving average level of weekly claims has almost reached the 400,000 mark; only the labor market recovery from the early 1990s recession took longer. With growth in the labor force expected to accompany an improving job market, the national

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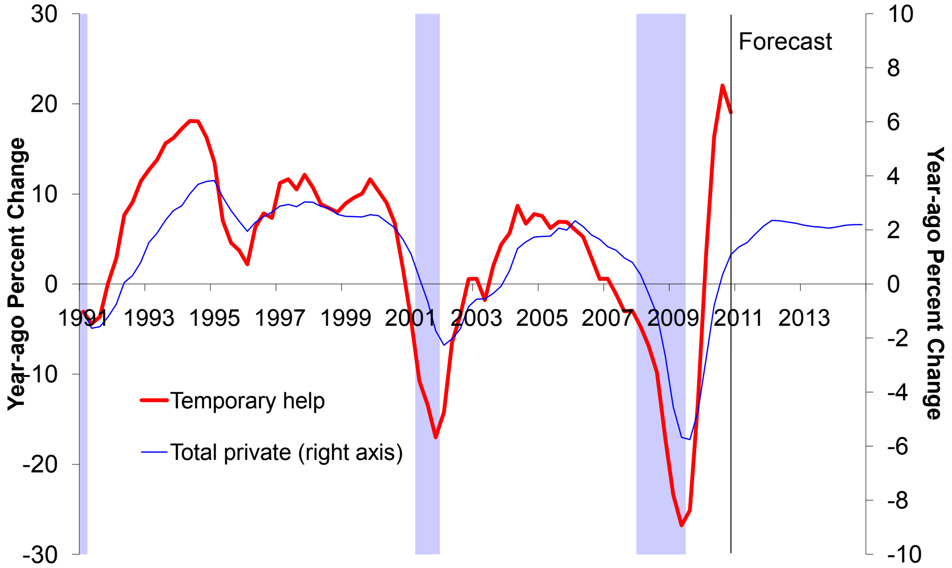
[8] A Granger causality test was used to test whether temporary-help services employment "Granger causes" private sector employment. The Akaike Information Criterion is used to determine the model's optimal lag structure. The results are statistically significant at a level below 1 percent.

unemployment rate is projected to average 9.3 percent for 2011, down only slightly from 9.6 percent in 2010.

Figure 10

Temporary Help Services Employment Leads Total Private

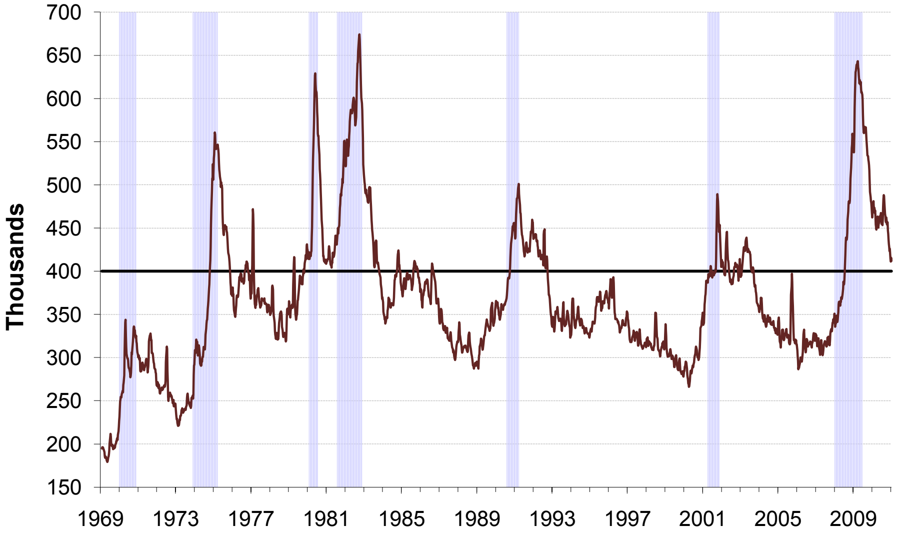


Note: Shaded areas represent U.S. recessions.
Source: Moody's Economy.com; Global Insight; DOB staff estimates.

Figure 11

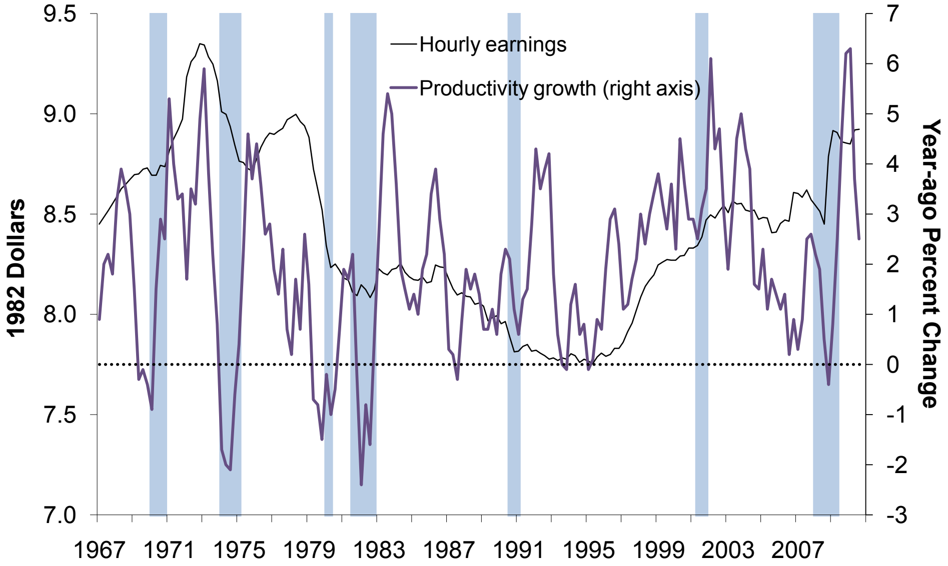
Initial Claims

4-Week Moving Average



Note: Shaded areas represent U.S. recessions.
Source: Moody's Economy.com.

Figure 12
Productivity Growth and Real Private Average Hourly Earnings



Note: Shaded areas represent U.S. recessions.
Source: Moody's Economy.com.

One consequence of the extraordinarily deep job cuts made by employers during the recession was high productivity growth. Figure 12 indicates that prior to the early 1990s, productivity tended to fall during recessions. During the 1990-91 recession, productivity continued to grow, but the rate of growth fell over the course of the relatively brief downturn. The experience of the 2001 recession was quite different, with the rate of productivity growth actually rising over its course. The behavior of productivity growth in the most recent downturn was a throwback to recessions past, falling in the fourth quarter of 2008 and then exhibiting accelerating growth. By the first quarter of 2010, the third quarter of the expansion, productivity growth had reached 6.3 percent, the highest since the first quarter of 1962. The productivity gains achieved toward the end of the last two recessions and the early phases of the recovery were likely reflective of the sharp declines in the workforce during the downturns and the failure of the workforce to grow during the early stage of the recovery. It has become clear that many firms have used the downturn as an opportunity to become leaner and more efficient. Going forward, these productivity increases should be seen as laying the foundation for future hiring as the business sector becomes more confident about the recovery and credit conditions simultaneously improve.

Figure 12 also includes the fluctuation in real average hourly earnings over the business cycle and illustrates how real earnings generally track changes in productivity, though they are much more stable. Although recent productivity gains bode well for future wage growth, the high degree of slack in the labor force could imply a long wait for workers before their wages catch up. The Budget Division projects wage growth of 4.6 percent for 2011, following growth of 2.1 percent for 2010.[9] Wages fell 4.3 percent

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[9] In the last Executive Budget and the Financial Plan updates that followed, the Budget Division forecasts incorporated the expectation that marginal Federal tax rates would rise for the wage earners in the top two income brackets at the end of 2010 with the expiration of the EGTRRA and JGTRRA. As a result, it was

in 2009, the first decline since 1954. The improvement in wage growth is expected to raise personal income growth to 5.0 percent for 2011, following growth of 3.0 percent for 2010 and a decline of 1.7 percent for 2009. Projected growth rates for both wages and total personal income are well below historical averages and reflect the large degree of slack in the U.S. labor market that will likely persist for some time to come.

Household Deleveraging Continues

U.S. consumers may finally be coming out of their three-year slumber, with high frequency spending data signaling strong fourth quarter growth. The Budget Division projects real consumption spending to rise 3.6 percent in 2011, the briskest annual rate of growth since 2000, following growth of 1.8 percent in the prior year. If the Budget Division 2010Q4 forecast for 4.5 percent growth is realized, real consumption growth will have finally surpassed its 2007Q4 prerecession peak after 12 quarters. Virtually every source of support for consumer spending collapsed during the recession, resulting in real consumption falling in five of the six quarters from the first quarter of 2008 through the second quarter of 2009.[10] This protracted decline in the level of real household spending is unprecedented in the history of the quarterly data. But a careful examination of the forces that led to the dramatic pullback in consumer spending indicates that the acceleration in fourth quarter spending is likely to extend well into 2011 and beyond.

As discussed above, the traumatic loss of 8.4 million jobs eliminated the primary source of income for a large number of workers. Almost 10 million unemployed workers were receiving unemployment insurance benefits under state and Federal programs in the week ending January 1, 2011. This number excludes those who exhausted their benefits after 99 weeks. The insecurity invoked by the fear of losing a job can also have a negative impact on spending. As a result, the net gain of about 1.1 million jobs since January 2010 not only implies a source of income for those million workers directly affected, but also produces an increasing sense of security among the entire workforce.

In addition to labor income, credit market conditions are critical to spending growth. Figure 13 illustrates this fact by comparing real consumption growth to bank willingness to lend to consumers, as measured by the Federal Reserve Board's Senior Loan Officer Survey. Bank lending to households is expected to continue to improve in 2011, although at a lesser pace than exhibited in the second half of 2010. The two most important determinants of banks' willingness to expand consumer credit are short-term interbank borrowing costs and default risk, which tends to be inversely related to economic growth. Default rates are expected to continue falling as the recovery progresses, although that trend will be partially offset by an upward creep in borrowing costs. With credit now a bit looser, consumer credit has grown for two consecutive months starting in October and November 2010, the first two consecutive monthly increases since the middle of 2008. However, growth in nonrevolving credit, such as car loans, more than accounts for this growth, as revolving credit, that includes credit card

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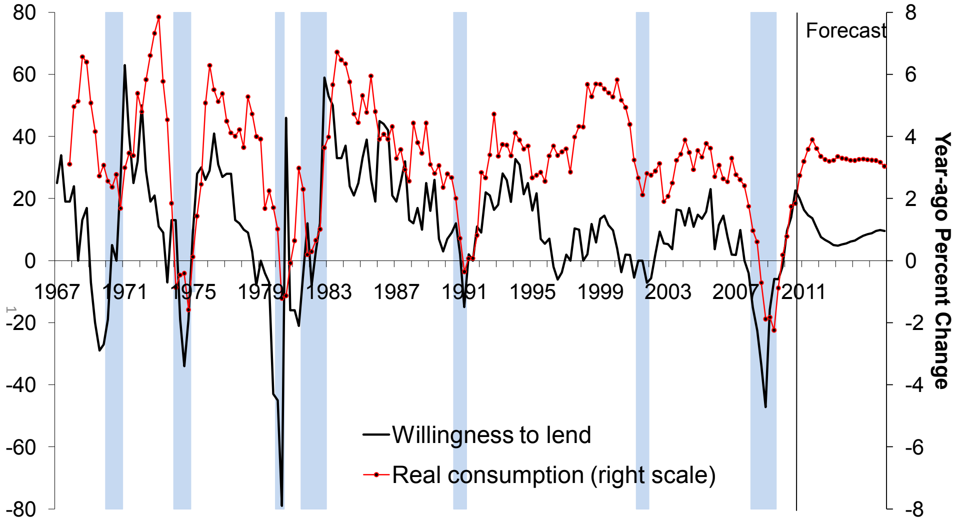
expected that some employers will shift the payment of wages, particularly bonus payouts, from the first quarter of 2011 to the final quarter of 2010, thus permitting employees to take advantage of the lower tax rates. With the passage of the tax compromise discussed above, we now assume that tax rates on ordinary income will rise for the top income earners in 2013.

[10] Real consumption grew 0.1 percent in 2008Q2.

debt, has fallen continuously since August 2008. Consequently, there is still much room for improvement in credit market conditions for consumers going forward.

Figure 13
Credit Conditions Improving But Still Tight for Consumers



Note: Senior Loan Officers Survey data measures net percentage of banks reporting increased willingness to lend to consumers; shaded areas represent US recessions.
Source: Moody's Economy.com; DOB staff estimates.

In the wake of the collapse of the housing bubble in the middle of 2006, U.S. households and nonprofit organizations lost $17.2 trillion in net worth, including both financial and nonfinancial sources of wealth.[11] Since the technical end of the recession in the second quarter of 2009, $10.3 trillion of that wealth has been restored. But a more detailed look at the numbers offers insight into the sluggish spending behavior of consumers. Between the summer of 2007, when credit markets first showed signs of stress, and the end of the recession, households lost $11.8 trillion in financial wealth. But since then, $9.9 trillion has come back, largely with the improvement in equity and bond markets. Unfortunately, the same cannot be said for nonfinancial wealth. Since the third quarter of 2006, U.S. households lost $6.8 trillion in real estate wealth, with only $350 million having returned as of 2010Q3.

TABLE 5
MEDIAN VALUES FOR FAMILIES WITH ASSET HOLDINGS
BY PERCENTILE OF INCOME
(Dollars in Thousands)

Asset type	Less than 20	20-39.9	40-59.9	60-79.9	80-89.9	90-100	Ratio of top decile to bottom quintile
Financial assets	$2	$7	$19	$60	$132	$405	238
Nonfinancial assets	$40	$77	$139	$246	$360	$800	20
Primary residence	$100	$120	$150	$215	$300	$500	5

Source: *2007 Survey of Consumer Finances Chartbook* , Federal Reserve Board.

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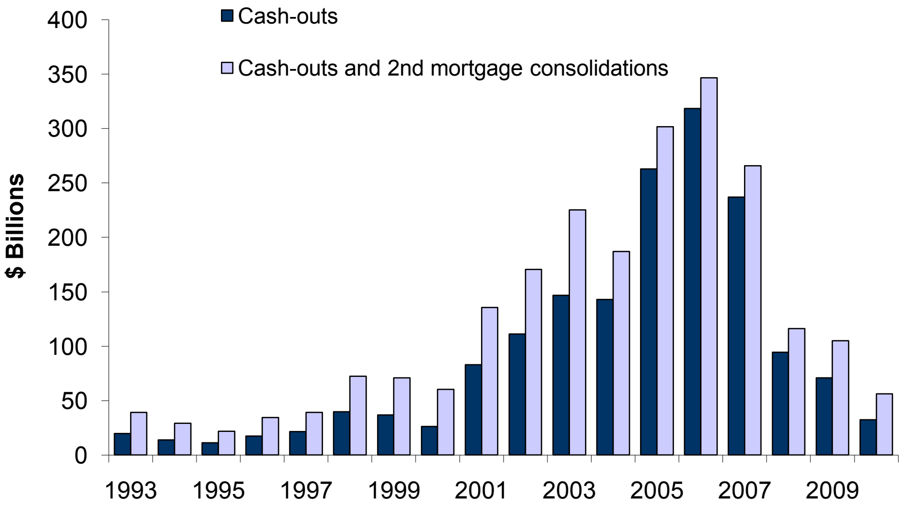
[11] Net worth data are based on Moody's Economy.com smoothed estimates of the Federal Reserve flow of funds data.

Table 5 provides some evidence of how various types of asset holdings are distributed across the population by income. The ratios of top-decile median holdings to those of the bottom quintile give an indication of how relatively concentrated a given type of wealth is among the top 10 percent of households. For example, financial assets are the most concentrated, as the top decile's median family holdings are 238 times the value of those in the bottom 20 percent. Thus, the rise and fall in financial asset values accrue disproportionately to high-income households. In contrast, holdings related to home ownership appear relatively more evenly distributed, with a ratio of only five. Thus, declines in home values, and the resulting destruction of real estate wealth, are likely to have had their greatest impact on households with the lowest incomes and, thus, the highest marginal propensity to consume.

The use of housing as a support for spending growth at the height of the housing bubble cannot be overstated. Mortgage debt grew 72 percent between the end of the 2001 recession and the home price peak in 2006Q1. This compares to growth of 28 percent over the first 17 quarters of the 1990s expansion. Moreover, when home prices were rising, homeowners were extracting equity from their homes through mortgage refinancing to finance current spending (see Figure 14). In the wake of the housing market collapse, the volume of equity cash-outs fell an estimated 84 percent from its 2006 peak of about $350 billion, contributing to the deep deleveraging that continues to put downward pressure on spending.

Figure 14

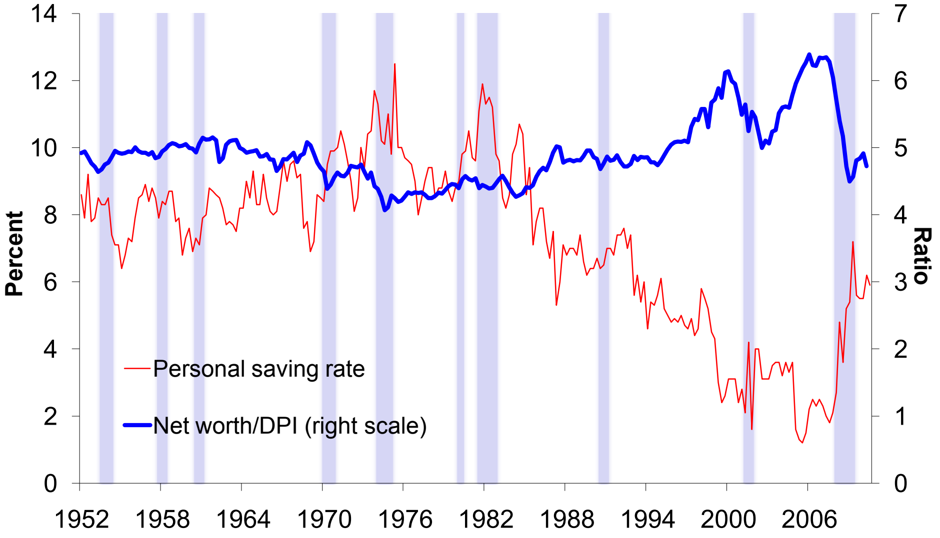
Home Equity Cash-Out Volume



Note: The first three quarters of 2010 are Freddie Mac estimates; the fourth quarter is assumed by DOB to be equal to the third.
Source: Freddie Mac.

Figure 15

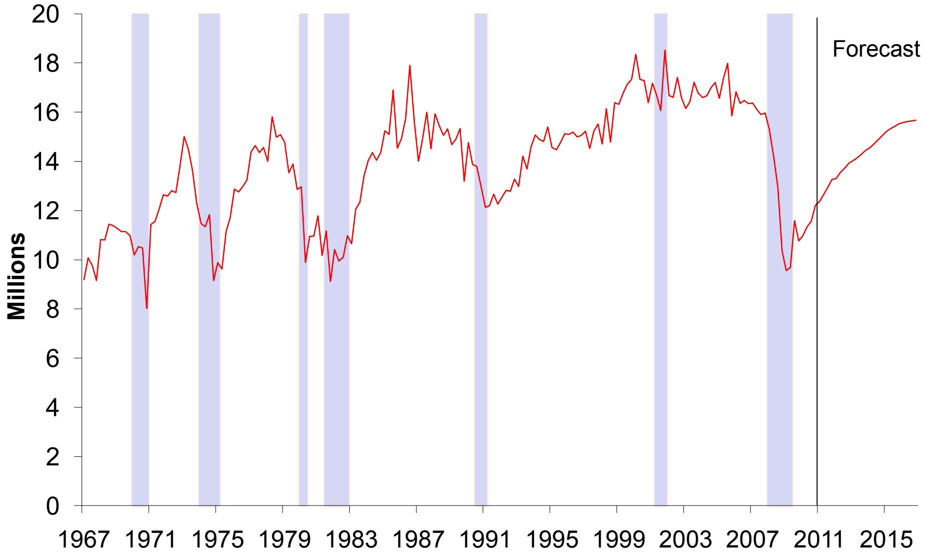
Saving Rate and Household Net Worth Relative to Disposable Income



Note: Shaded areas represent U.S. recessions.
Source: Moody's Economy.com.

Figure 16

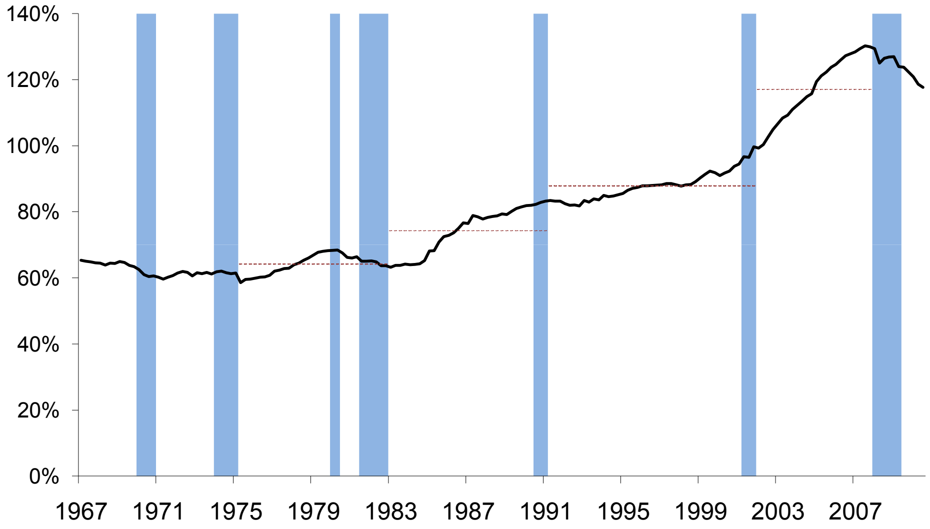
Passenger Car and Light Truck Sales



Note: Shaded areas represent U.S. recessions.
Source: Moody's Economy.com; DOB staff estimates.

Figure 15 compares the rate of personal savings out of disposable income with the ratio of household net wealth to disposable income. As household wealth falls relative to current income, households save more out of income in order to begin to restore some of what has been lost. As a result, the personal savings rate has risen from 1.4 percent in 2005 to 5.9 percent for the first three quarters of 2010. The low savings rate that characterized much of the recent expansion reflects in large part the accumulation of paper wealth and cheap credit that fed not only the demand for new homes but also the demand for durable goods, such as autos, furniture, and appliances. Figure 16 shows the record levels of light vehicle sales attained during the 2002-2007 expansion and the steep decline that followed.

Figure 17
Household Debt as Percent of Disposable Income



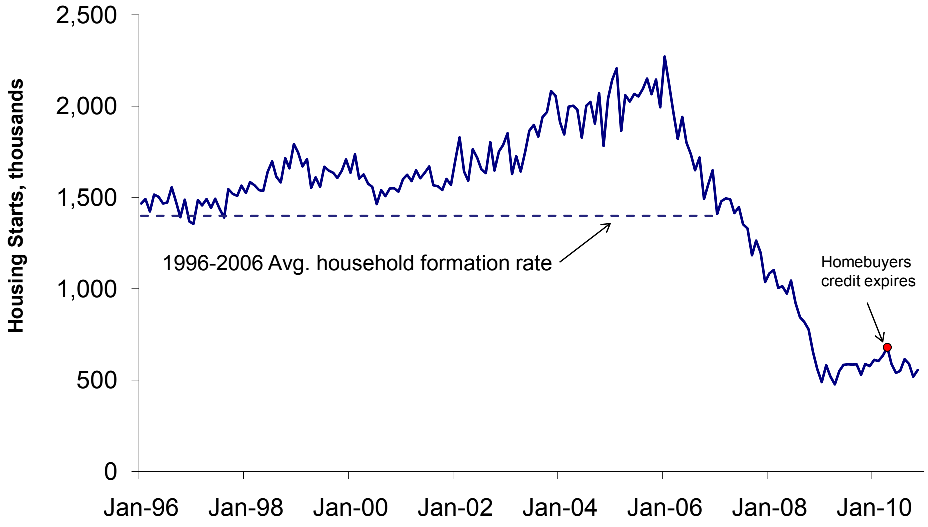
Note: Shaded areas represent US recessions; dashed lines represent the average for the business cycle.
Source: Moody's Economy.com.

In the sixteen quarters since the business cycle peak, households have made substantial headway in the deleveraging process. As illustrated in Figure 17, household debt has fallen from its peak of 130.2 percent of disposable personal income in the third quarter of 2007 to 117.6 percent in the third quarter of 2010. Meanwhile, the rate of saving out of disposable personal income has fallen from 6.3 percent in June to 5.3 percent in November. These developments coincide with the solid fourth quarter spending growth, including a rise in vehicle sales above an annualized value of 12 million, the highest since the third quarter of 2008.

The decline in the rate of deleveraging helps to pave the way for an accelerating rate of spending growth going forward. Rising equity markets, a slowly improving labor market, Federal stimulus spending, and improving credit conditions are also expected to support a progressive comeback in household spending. Real spending for services and nondurable goods, the less cyclical component of household consumption, is projected to rise 2.8 percent in 2011, following growth of 1.1 percent for 2010. Real spending for the more cyclical durable goods component is projected to rise 10.3 percent in 2011, following a 7.8 percent decline in 2010. Projected growth in durable spending implies a gradual rise in light vehicle sales to their long-run annualized value of about 15 million vehicles per year by the end of 2014.

Figure 18

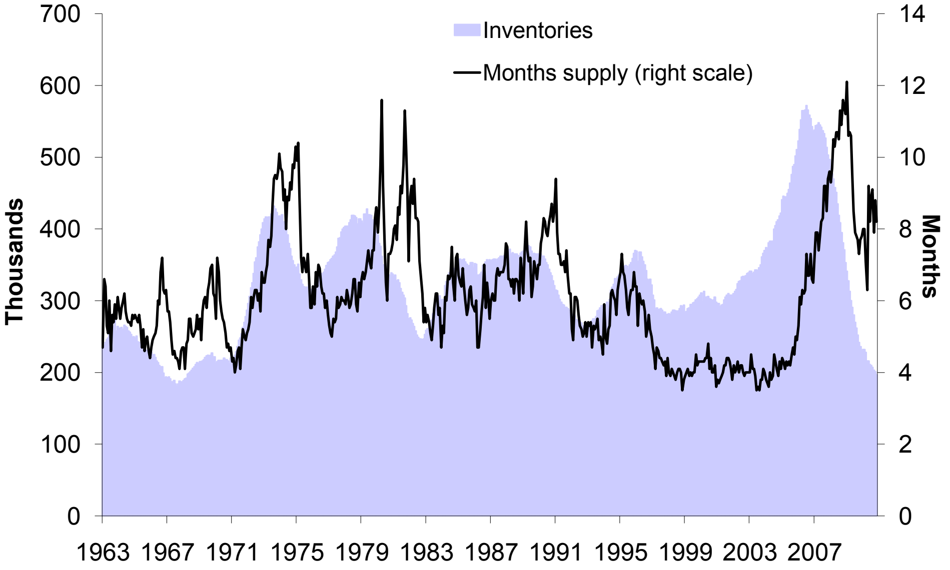
Housing Market Stabilizing



Source: Moody's Economy.com.

Figure 19

Inventory of New Homes for Sale

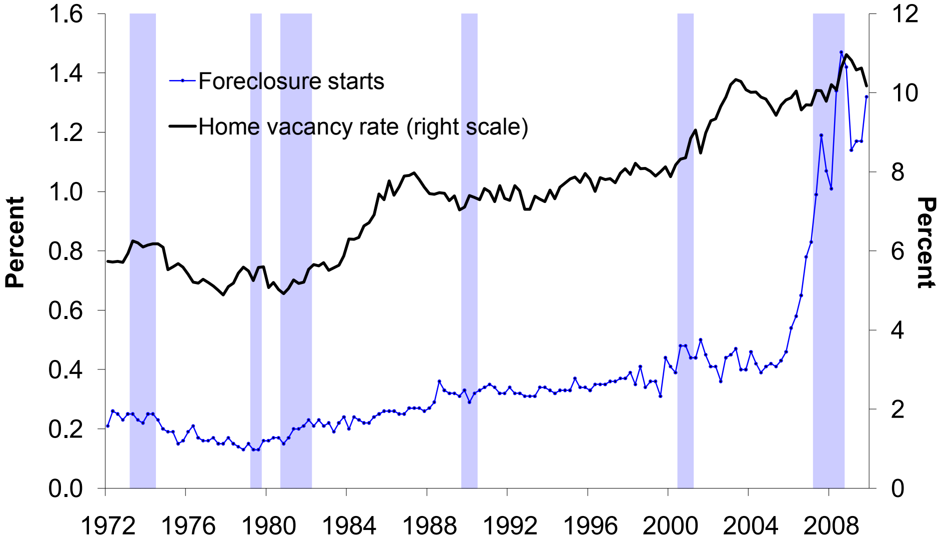


Source: Moody's Economy.com.

The Budget Division's outlook calls for improving consumption growth despite very little stimulus from the housing market and the associated induced demand for goods such as home furniture and appliances. Real residential housing investment showed some signs of life in the second quarter of 2010 with the expiration of the Federal home buyers' credit program at the end of April, but the program appeared only to draw forward activity from future quarters, as illustrated in Figure 18. Real residential investment is projected to rise 6.1 percent in 2011, after a decline of 2.6 percent in 2010. However, high unemployment and the sensitivity of equity markets to shocks will continue to represent considerable downside risks to the demand for housing and all of household spending for the next few quarters.

An average of 1.5 million households were formed each year between 1996 and 2006, while housing starts averaged 1.7 million a year over the same period (see Figure 18). The resulting oversupply produced a large and growing volume of unsold homes when prices started to drop in middle of 2006. As depicted in Figure 19, some progress had been made toward reducing the overhang resulting from the housing boom, but some of that progress was likely undone by rising foreclosures, which put upward pressure on inventories and downward pressure on construction. The Census Bureau inventories data do not include homes put on the market by banks at the close of a foreclosure proceeding, so it is uncertain precisely how the market is being affected by the rising foreclosure rate (see Figure 20). A statistical analysis described in Box 3 indicates that the impact could be substantial. In addition, because of the lag between the time a homeowner goes into arrears and the point at which a foreclosed home goes back on the market, foreclosures could continue to put upward pressure on inventories even as the labor market improves.

Figure 20
Percent of Loans Entering Foreclosure and Home Vacancy Rates

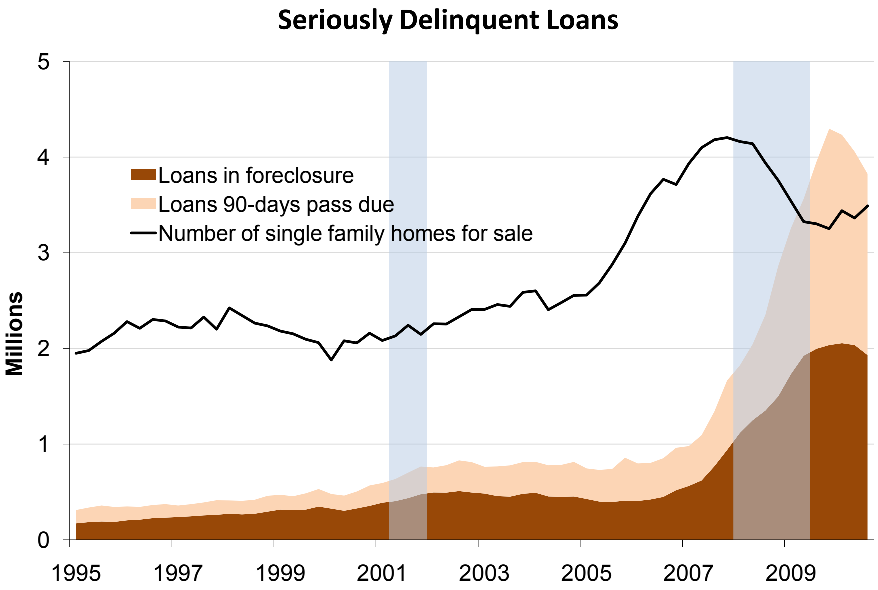


Note: Shaded areas represent U.S. recessions.
Source: Moody's Economy.com.

Figure 20 also indicates that the home vacancy rate has fallen but remains high, with rental home vacancies recently registering their highest readings since the government began collecting such data in 1956. Thus, falling home prices, high vacancy rates, and the continued addition to the inventory of unsold homes by foreclosures add a substantial amount of short-term risk to the Budget Division forecast for both residential investment and associated household durable goods spending (see Box 3). Moreover, weakness in home prices may be impeding the expansion of small businesses as well. On the other hand, the rate of household formation, which varies consistently with the business cycle, is likely to pick up as the economy recovers. Given the delay with which the housing market is joining the recovery, this critical market may provide future stimulus to the expansion as it matures, creating upside risk to the forecast longer-term.

BOX 3
HOUSING MARKET RISKS

As of the third quarter of 2010, 1.9 million homeowners were in foreclosure and another 1.9 million were delinquent on their mortgages for more than 90 days, putting them at a very high risk of foreclosure. Together these two groups comprise the "seriously delinquent." A large fraction of these homeowners end up moving out of their homes, either by selling their homes at a steep discount or by losing their homes to lending institutions, which in turn put them on the market often at a reduced price. These homes are not reported in the Census Bureau's official home inventory statistics and consequently are often referred to as shadow inventory. Of course high levels of inventory put downward pressure on home prices, particularly when the seller is a bank looking for a quick sale. The figure below indicates that the number of seriously delinquent properties has risen significantly since 2006 and currently exceeds the combined number of new and existing single family homes for sale.



Note: Shaded areas represent U.S. recessions.
Source: Moody's Economy.com.

According to Realty Trac's most recent quarterly report, 188,000, or 25 percent, of all residential sales in the third quarter of 2010 were foreclosed properties.[1] Of those, 114,000 were owned by banks and therefore also referred to as real-estate-owned properties, or REOs. Foreclosed properties sold at a price 32 percent below that of other sales. REOs were sold at an even bigger discount of 41 percent. Although foreclosures dipped in both November and December in the wake of the "robo-signing" controversy, foreclosure activity is reportedly expected to accelerate in the first quarter of this year, with the market returning to more normal levels of activity in the second quarter.

Based on a system of equations that estimates housing starts, the inventory of homes for sale, home prices, residential investment, and durable consumption, a one percent increase in the housing inventory – defined as the official plus the shadow inventory – lowers housing starts by 0.4 percent. If a large fraction of seriously delinquent properties enters the market, both housing starts and home prices are negatively affected. Housing starts are a direct indicator of residential investment, while residential investment is a significant predictor of real durable consumption. As a result, we conclude that increases in foreclosures and the shadow inventory of REOs poses a substantial risk to the recovery in both residential investment and consumption spending.

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[1] See <http://www.realtytrac.com/content/news-and-opinion/foreclosure-homes-account-for-25-percent-of-all-q3-2010-residential-sales-6194>, viewed January 21, 2011.

Business Spending Revives

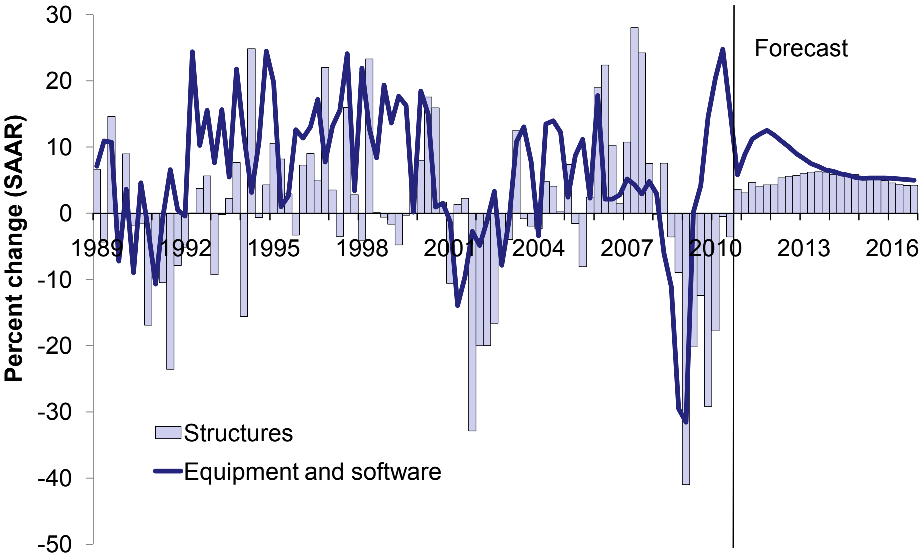
The last recession saw double-digit declines in business investment in both equipment and software and structures, as well as a record drop in inventories as businesses, burned by overstocked shelves when consumer spending began to weaken, slashed production and investment in both 2008 and 2009. But since then, business spending has become one of the leaders of the recovery. Through the first three quarters of 2010, real business fixed investment in equipment and software grew at an average annualized rate of 20.2 percent (see Figure 21), after falling 15.3 percent in 2009 and 2.4 percent in 2008. Private inventories, which fell an unprecedented $113.1 billion in real terms in 2009, after a $37.6 billion decline in 2008, have increased in each of the first three quarters of 2010, with an annualized $121.4 billion increase in the third quarter of the year.

Unfortunately, nonresidential investment in structures, which was slower to decline initially, now has been slower to recover. Business spending on buildings fell 16.5 percent in 2010 based on the first three quarters of data, after plummeting 20.4 percent in 2009; it posted a 5.9 percent increase in 2008. Business spending on structures had its last quarterly increase in 2008Q2.

The three most important factors explaining the recent collapse of investment during the recession are the unprecedented pullback in domestic household spending, credit market frictions, and falling international trade. Moreover, feedback among these three factors amplified the decline. As consumers pulled back, profits and imports fell, and loan default rates rose, causing an already fragile banking system to tighten further. It can be difficult to disentangle these effects.

Figure 21

Real Nonresidential Fixed Investment



Source: Moody's Economy.com; DOB staff estimates.

As the economy improves, the forces alluded to above will tend to reinforce each other in a virtuous cycle. Banks will be more willing to lend and businesses more willing to borrow to replace old equipment and expand capacity as rising wealth and falling labor market uncertainty lead to higher domestic and global demand, resulting in greater profits and lower loan default rates. Given the slow recovery in credit market conditions, the surprise is the strength to date in spending on equipment and software. Of course, after four straight quarters of declines, some worn out equipment and out-of-date software would need to be replaced. But the strength of the comeback in investment spending is likely the result of several additional factors. First, large firms had accumulated cash stockpiles that were available for capital spending. These holdings were bolstered by the hefty corporate profits growth alluded to above.

The gradual improvement in credit conditions is another factor explaining the recent strength of investment growth. Evidence from the Senior Loan Officers' Survey suggests that credit market conditions are improving more quickly for the large and medium sized firms that likely dominate the investment statistics than for small firms. Based on survey results for the fourth quarter of 2010, the net percentage of banks reporting tighter standards for commercial and industrial loans to large and medium firms fell 10.5 percent, after falling 8.8 percent in the third quarter. The same statistic for small firms fell 7.1 percent in the fourth quarter, after falling 9.1 percent in the third. Finally, firms are aware that the current low interest rate environment will not last indefinitely.

As the Budget Division expected at this time last year, real private nonresidential business investment has taken a bifurcated path, with a recovery in spending on equipment and software juxtaposed with a continued decline in investment in structures. As seen in Figure 21, 2009Q3 represents the first quarter of true growth in producer durable equipment and software since the first quarter of 2008, consistent more with the revival of international trade in 2009 than with growth of domestic demand at that point. Following a fall of 31.6 percent in the first quarter of 2009, investment in equipment and software eked out a 0.2 percent increase in the second quarter, before increasing 4.2 percent in the third quarter of the year. Real exports of capital goods (excluding autos), which fell 15.2 percent in 2009, rose 13.5 percent in the first 11 months of 2010 over the comparable period in 2009, based on seasonally adjusted data.

Investment spending will continue to grow as household spending rises and credit markets continue to loosen. The Budget Division projects growth of 11.0 percent in real equipment and software investment for 2011, following an increase of 15.1 percent in 2010. However, given the overbuilding in the commercial construction sector prior to the recession, nonresidential investment in structures has continued to fall through the first three quarters of 2010. This pattern is expected to result in an annual average decline of 13.9 percent for 2010, to be followed by an increase of 2.6 percent in 2011.

For a given set of current and expected future input and output prices, profit maximizing firms are assumed to choose a level of investment that achieves an optimal long-run relationship between the expected level of sales and the stock of plant and equipment.[12] With consumption and global demand rising, the incentive to expand and

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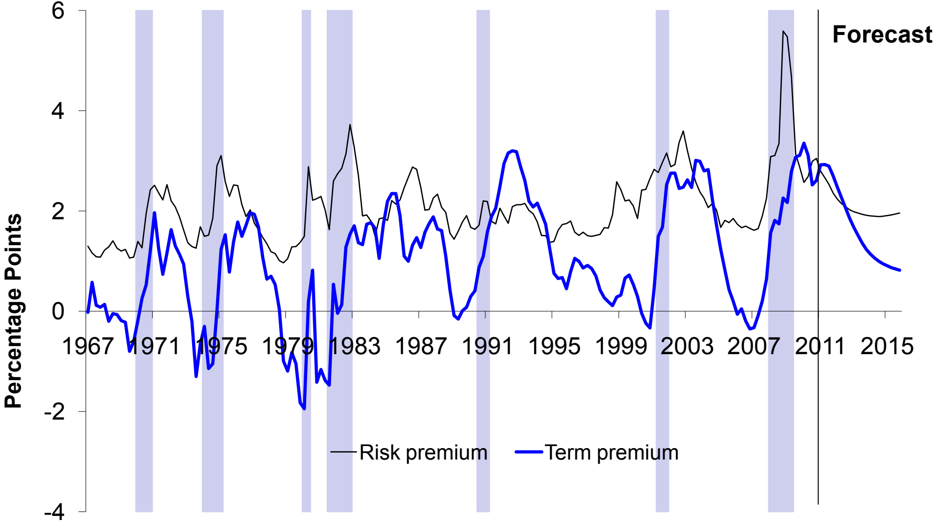
[12] Optimal investment is the level that maintains the profit maximizing or cost minimizing capital-output ratio. With a Cobb-Douglas production function, the optimal capital-output ratio will be equal to the ratio

invest can be expected to rise as well. In addition, a decrease in the cost of acquiring and using capital goods, commonly referred to as the user cost of capital, also induces firms to increase investment spending. Factors that reduce the user cost include a decline in the prices of new investment goods, falling inflation-adjusted borrowing costs, rising equity prices, and changes in the tax code, such as the creation of an investment tax credit. Consequently, with risk spreads continuing to normalize, as indicated in Figure 22, the incentive to invest is yet further increased.

Figure 22
The Risk Spread Returns to Historic Norms



Note: The term premium is defined as the gap between the 10-year and one-year Treasury yields; the risk premium is defined as the gap between the BAA rated corporate bond and 10-year Treasury yields; shaded areas represent U.S. recessions.
Source: Moody's Economy.com; DOB staff estimates.

As alluded to above, one group for whom credit conditions are not improving is small businesses. Moreover, the housing market decline may be compounding the credit access problems being experienced by small businesses even further. A report by the Federal Reserve Bank of Cleveland on small business finance combines evidence from a variety of sources to conclude that homes constitute an important source of capital for small business owners.[13] In focus groups convened by the Federal Reserve, participating small business owners reported that the reduced value of their homes had either made it difficult for them to provide the necessary collateral for small business loans or made home equity borrowing as a source of business capital more difficult to come by. Survey of Consumer Finances (SCF) data cited by the study indicates that between 1998 and 2007, the home equity debt of households headed by the self-employed rose 110 percent compared to only 46 percent for those where the householder was employed by others.

A 2009 study cited in the report finds that among the firms with fewer than 500 employees surveyed, 16 percent reported that they borrow against the value of their homes for business purposes, and 7 percent said that they put up their homes as collateral

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of the price of output to the rental rate of capital. This condition implies that the optimal growth rate of investment varies with output growth and changes in the rental rate of capital relative to output price.

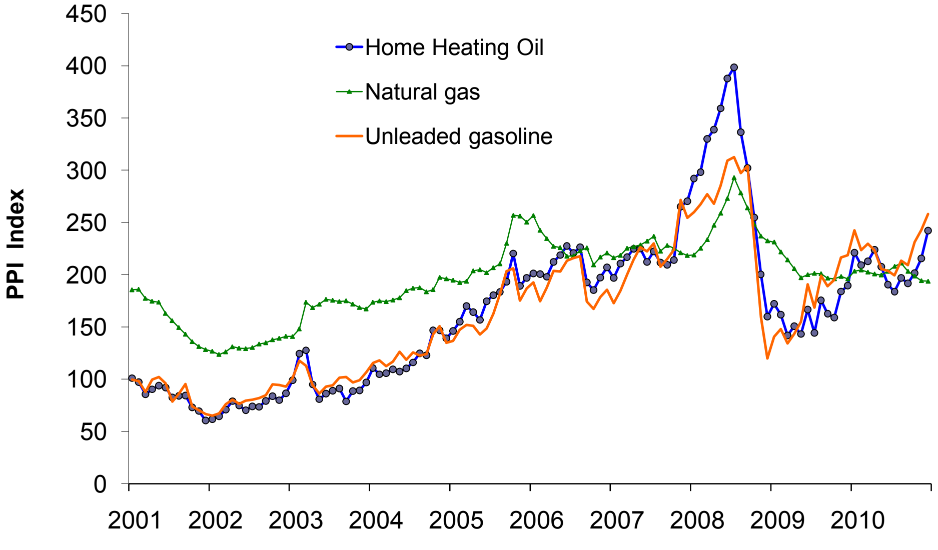
[13] See <http://www.clevelandfed.org/research/commentary/2010/2010-18.cfm>, view January 22, 2011.

for business purposes. These numbers rise to 20 percent and 11 percent, respectively, if one includes residential real estate other than the owner's primary residence. In a 2007 survey, 20.5 percent of the business owners reported pledging their homes as collateral for their businesses, while 18.2 percent said they borrowed against their homes to obtain a personal loan and used the proceeds to finance a small business. The link between home prices and small business credit suggests the difficulty in returning small business owners to pre-recession levels of credit access without an increase in home prices.

Outlook for Inflation and Monetary Policy

The recovery from the 2008-2009 recession took a detour in the spring of 2010, as real gross domestic product (GDP) growth slowed from 5.0 percent in the fourth quarter of 2009 and 3.7 percent in the first quarter of 2010 down to a 1.7 percent pace in the second quarter and 2.6 percent growth in the third. That slowdown also helped bring down domestic inflation rates, particularly in the second half of 2010. Fears that the Federal Reserve's ongoing expansionary monetary policies would lead to a pickup in inflation were replaced by renewed concerns about "deflation," though so far only some disinflation has appeared. Energy and food prices have of course been an exception, with oil prices hovering close to $90 per barrel and regular unleaded gasoline prices rising above $3.00 a gallon, a price not seen since October 2008 (See Figure 23). However, as is evident in Figure 24, those increases have thus far failed to feed into "core" inflation, which removes the more volatile energy and food components to better reflect the underlying trend. But that reality could quickly change as the labor market picks up steam.

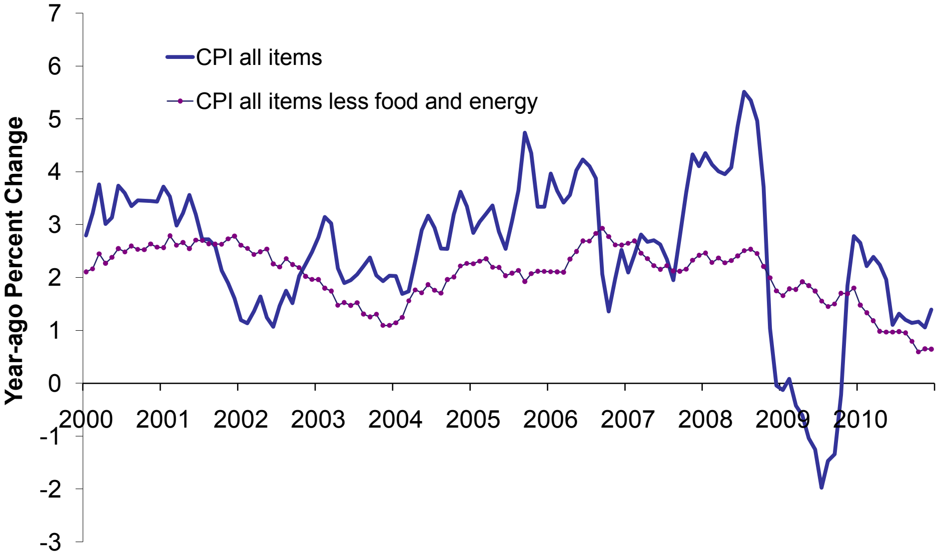
Figure 23
Recent Trends in Energy Prices



Source: Moody's Economy.com.

Figure 24

General vs. Core Inflation

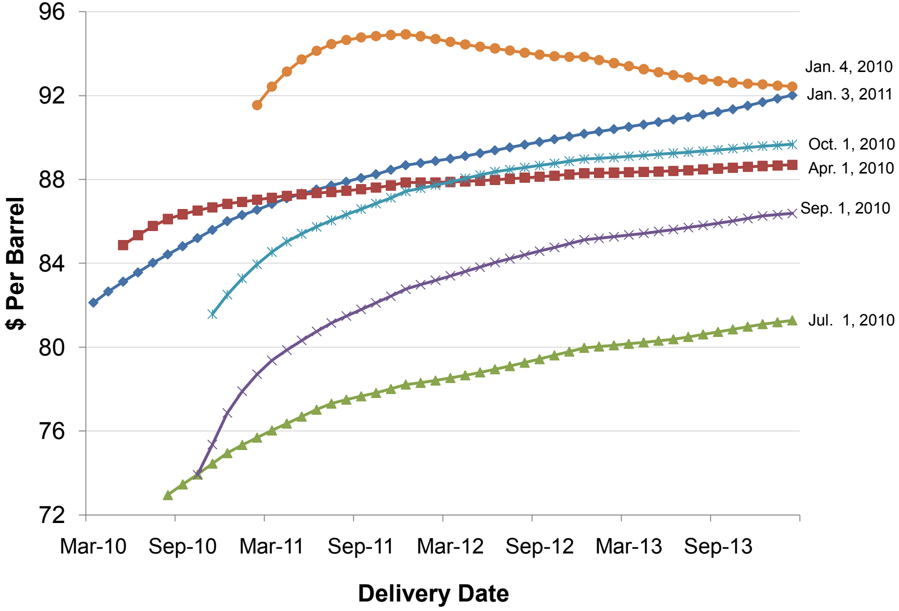


Source: Moody's Economy.com.

A contributing factor to the slowdown in inflation was the European debt crisis, which first emerged in late 2009, though at that time it appeared to have been contained. But the crisis intensified in the spring of 2010, until massive efforts on the part of the European Central Bank, International Monetary Fund and individual European nations to assist Greece in particular, but also Portugal and Spain, stabilized the situation. The euro-debt crisis was not only a shock to output and equity price growth, but to price growth as well. The all-items Consumer Price Index (CPI), which in January had increased 2.7 percent on a year-over-year basis, slowed to a 1.4 percent rate by December, with the year-over-year growth rate having fallen sharply between May and June (see Figure 24). Meanwhile, the "core" CPI also slowed from a 1.5 percent year-over-year rate in January to a near record-low 0.6 percent by November.

The Budget Division projects inflation, as measured by growth in the Consumer Price Index, of 1.8 percent for 2011, following 1.6 percent in 2010. With increased economic growth in 2012, the inflation rate is expected to accelerate, though to a still-moderate 1.9 percent in 2012. With oil prices rising as domestic and global demand continue to firm, the per barrel price of benchmark West Texas Intermediate (WTI) crude oil can be expected to fluctuate around $90 over the near-term. Due to the extreme volatility in global energy prices, the Budget Division uses the futures contract curve to guide its oil price forecast (see Figure 25).

Figure 25
WTI Crude Oil Futures Prices for Selected Contract Dates in 2010



Source: Bloomberg.

The Budget Division inflation forecast is consistent with long-term inflation expectations remaining anchored for now. However, accelerating domestic demand and emerging market growth could cause prices to rise more quickly than anticipated, particularly energy prices, creating risk to the inflation forecast. With demand weak, producers have found it difficult to pass increases in input prices onto consumers, other than those that are energy related. But with the U.S. recovery gaining strength, the probability that rising energy and food prices will spill over into core inflation is heightened. A statistical model that measures the sensitivity of core inflation to the change in oil prices suggests that we can expect some pass-through in time, even in the presence of labor market slack (see Box 4). As a result, we expect that the Federal Reserve will want to move away from near-zero short-term interest rates as soon as they see some internally generated momentum in business hiring.

BOX 4
THE THREAT TO DOMESTIC PRICE STABILITY FROM GLOBAL PRICE SHOCKS

With the unemployment rate hovering above 9 percent and capacity utilization still 5.7 points below its pre-recession peak, many have argued that inflation risk is minimal, despite the increase in energy and other global prices from their recession lows. Also, with wages falling 4.3 percent in 2009 and estimated growth for 2010 well below its historical average, there would appear to be virtually no threat to price stability from domestic sources. But with the U.S. far more integrated into the global economy, global prices now play a larger role in determining the domestic price level than before. According to the U.S. Energy Information Administration, the Asia-Pacific region is currently the leading driver of higher oil demand and therefore of recent price hikes. These increases represent an external shock to the recovering U.S. economy. Energy and other commodity price shocks represent a change in the price of one good relative to all others and not necessarily a change in the general price level itself. Thus, the broader economic impact of such shocks depends largely on their pass-through to domestic core inflation.

The model estimates the impact of both domestic and global factors on core price inflation. Near the peak of the business cycle, when markets are tight, it should be easier for firms to pass along higher costs to consumers than during a slowdown. Similarly, with employment and wages growing, consumers would be willing to pay more as well. Thus, when the unemployment rate is above the so-called non-accelerating inflation rate of unemployment, commonly referred to as the NAIRU, core inflation should be lower. But with the nation's foreign sector now much larger than before, we test the hypothesis that the impact of domestic labor market forces on core inflation may have fallen over time. Additionally, when the prices of the imported goods with which domestic non-energy producers must compete grow at a faster rate than core inflation, core inflation can be expected to accelerate. When productivity growth is high, firms can absorb higher costs without sacrificing profits, removing the necessity of raising output prices and risk losing market share. In contrast, if firms expect high future inflation, they may feel more comfortable raising prices today without risking market share, since with wages presumably growing with expected future inflation, consumers are willing to pay those higher prices. The results of a statistical analysis that includes all of these factors appear below:

$$
\begin{aligned}
INF_t^C = &- \underset{(0.09)}{0.04}\,(U_t - U_t^{NAIRU}) - \underset{(0.14)}{0.62}\,(U_t - U_t^{NAIRU})D1983Q4_t + \underset{(0.02)}{0.04}\,(INF_{t-1}^{IM} - INF_{t-1}^{C}) \\
&+ 0.02\ PDL(12,2,INF_{t-1}^{E} - INF_{t-1}^{C}) - 0.27\,PDL(12,2,PROD_t) + \underset{(0.07)}{0.34}\ INF_{t-1}^{C} + \underset{(0.10)}{0.91}\ \hat{INF}_{t+4}
\end{aligned}
$$

$\overline{R}^2 = 0.83$ DW=1.99 $1957Q2 - 2010Q3$

INF_t^C = Core CPI inflation, current qtr.

U_t = Unemployment rate, current qtr.

U_t^{NAIRU} = NAIRU, current qtr.

INF_{t-1}^{IM} = Non-oil import price inflation, prior qtr.

$PROD_t$ = Nonfarm business productivity growth, current qtr.

INF_{t-1}^{E} = Energy CPI inflation, prior qtr.

$\hat{INF}_{t+4}$ = Expected annual inflation, 4 qtrs. ahead

PDL(l,d,var) = Polynomial distrubuted lag (l = number of lags; d = degree of polynomial)

$D1983Q4_t$ = Break point dummy {= 1 for $t \leq$ 1983Q4; 0 otherwise}

Note: All inflation and growth rates are annualized from prior quarter;
standard errors are in parentheses.

The model results presented above indicate that if either energy inflation or inflation in non-energy import prices rises above core inflation, there is some pass-through to the core inflation rate. Model results also show a negative impact of labor market slack on core inflation, but based on a test for structural change, the impact appears to have changed over time. While the impact was relatively strong and statistically significant during the period prior to 1983Q4, it becomes statistically indistinguishable from zero for the subsequent period. These results suggest that even a large degree of labor market slack does not eliminate inflation risk, particularly when global prices are rising.

Early in 2010 the Federal Reserve communicated its intention to begin the process of unwinding the enormous expansion of its balance sheet portrayed in Figure 3 above. Although much of those plans were derailed by the shock wrought by the euro-debt crisis, the Federal Reserve did shutter the Term Asset-Backed Securities Loan Facility (TALF) programs for existing commercial mortgage-backed securities (CMBS) by the end of June, while other "special liquidity facilities," such as the Commercial Paper Funding Facility and Primary Dealer Credit Facility were allowed to expire as planned on February 1. But by May the Fed was forced to re-establish temporary U.S.-dollar liquidity swap facilities with the European Central Bank, as well as the central banks of Canada, England, Japan and Switzerland, in response to the aforementioned European debt crisis. These facilities also had been allowed to expire on February 1. The revived liquidity-swap facilities are currently available through January 2011.

Another part of the Federal Reserve's exit strategy was being implemented as late as July, according to Federal Reserve Board of Governors Chairman Ben Bernanke, who told Congress in his *Semiannual Monetary Policy Report* that repayments of principal from agency debt and mortgage-backed securities were not being reinvested, thus allowing the Fed's holdings of those securities to run off as the repayments were being received. The central bank had completed a $1.25 trillion purchase of federal agency mortgage-backed securities and an approximately $175 billion purchase of agency debt, including that of Fannie Mae, Freddie Mac, and Ginnie Mae, by the beginning of April. But as of the end of August, the Federal Reserve was communicating its concern over the slow recovery of the labor market, and at its November meeting the Federal Open Market Committee (FOMC) announced a new $600 billion "large-scale asset purchases" (LSAP) program. The details and impact of the program that has become popularly known as QE2 are discussed in more detail in Box 5.

The Budget Division normally uses a modified version of Taylor's monetary rule as a guide to forecasting changes in the central bank's federal funds policy target. Taylor's rule is a federal funds rate reaction function that responds to both the deviation of inflation from its target level and the deviation of output growth from its potential level. We assume the Federal Reserve weighs deviations from its inflation target about twice as heavily as deviations from its output growth target, so the inflation deviation has a weight of unity while the output growth deviation has a weight of 0.5. In addition, the contemporaneous value of inflation is replaced by an average of actual inflation for the past three quarters, estimated inflation for the current quarter, and expected inflation for one quarter ahead. A similar term is constructed for output growth. However, given the zero bound on nominal interest rates, Taylor's rule has recently been limited in its guidance as to how the central bank will proceed.

The Federal Reserve's federal funds policy target has remained at zero to 25 basis points since the FOMC meeting of December 16, 2008, with the Committee consistently saying that it expected that economic conditions "are likely to warrant exceptionally low levels for the federal funds rate for an extended period." Just as the slowing expansion forced the Fed to retreat from its planned exit strategy, the Budget Division has pushed its expected first change in the policy rate to the sixth scheduled FOMC meeting of 2011, set for September 20. Given that the Budget Division expects the unemployment rate to average 9.3 percent in 2011, and given that the FOMC's own projections of unemployment, made at its November meeting, were more pessimistic than in June (with a range of 8.9 percent to 9.1 percent, up from the 8.3 percent to 8.7 percent range in June), it is difficult to make a case for an earlier policy move. However, the Federal Reserve is capable of responding very quickly to changing economic conditions, as the July-August episode illustrates. That creates a hazard for those who try to forecast FOMC policy moves, and constitutes a risk to the forecast as well.

BOX 5
WHAT'S UP WITH QE2?

At its November meeting the Federal Open Market Committee (FOMC) said that in an effort to keep interest rates low, it would not only continue the reinvestment program, but would also expand the Fed's balance sheet through the purchase of an additional $600 billion of longer-term Treasury securities. However, notwithstanding the central bank's efforts, the 10-year Treasury yield rose from 2.6 percent on November 2, one day before the FOMC released the policy statement announcing its new LSAP program, to 3.3 percent by the last day of December. Since yields are inversely related to security prices, large-scale purchases by the Federal Reserve would be expected to increase the prices of the securities, thereby lowering their yields all else equal; thus the recent rise in rates has created a bit of a conundrum.

Part of the difficulty is that Bernanke himself emphasized the importance of the "portfolio balance channel" in his August speech during a conference at Jackson Hole, Wyoming. This assumes that different financial assets are not perfect substitutes in the portfolios of investors. Bernanke argued that Federal Reserve purchases of Treasury, agency debt and agency mortgage-backed securities (MBS) "likely" reduced their yields and pushed investors into holding other assets with similar characteristics, for example duration and credit risk. The lower interest rates should stimulate interest-sensitive components of aggregate demand, helping to boost the economy, while another effect of the lower interest rates shows up in equity markets. According to research done by the Federal Reserve Bank of New York, the first LSAP appears to have reduced the term premium on the 10-year Treasury security somewhere between 30 and 100 basis points, "with most estimates in the lower and middle thirds of this range."[1]

Two other channels by which LSAP can influence the economy are through a wealth effect and the foreign exchange value of the dollar. In the former, lower yields on securities make equities more attractive to investors at the margin, leading to rising stock prices. As households see the value of their equities holdings rise, this translates to increased spending on goods and services. In the latter case the lower yields on longer-term debt and the expectation that the FOMC will retain its very low federal funds target range for an "extended period" should lower the value of the dollar relative to foreign currencies, making U.S. exports less expensive and thus contributing to economic growth.

The increase in the composite long-term Treasury security cited above need not be an indicator that the new LSAP program is failing. For one, the program has been in operation for only two months (as of this writing). In the first announcement of the program, the FOMC said it expected the new LSAP to be completed at the end of the second quarter of 2011. Thus, the full impact is yet to be seen. For another, in the wake of Bernanke's August 27 speech, yields on the 10-year Treasury security fell, as investors apparently anticipated that the door had been opened to another round of LSAP. This sort of market behavior is often described as "buy on the rumor, sell on the news." Given the variety of factors that influence interest rates, it could also be argued that yields would be even higher in the absence of the LSAP program.

But there are reasons to be skeptical of the outcome of the latest LSAP, while also being concerned about the longer-term effects of the programs. Critics have cited the risks to the value of the dollar. Some skeptics argue that investment is more responsive to the economic outlook than to interest rates, and with interest rates already at low levels a further reduction (if it occurs) will do little to stimulate demand (and thus employment) from this channel. Others argue that the effects on yields are too small, or that the results cited above with respect to the first LSAP are overstated. Concerns about the LSAP programs range from a loss of Federal Reserve credibility if the purchases are seen as being ineffective, to whether it is wise for the central bank to monetize that large a volume Federal debt and whether the Fed will be able to shrink its balance sheet in a timely manner, without disrupting financial markets. If not, the Fed may find itself confronted by inflation above its "comfort level" once banks begin to use their massive excess reserves to support lending activity and hence expand the money supply, fueling inflation.

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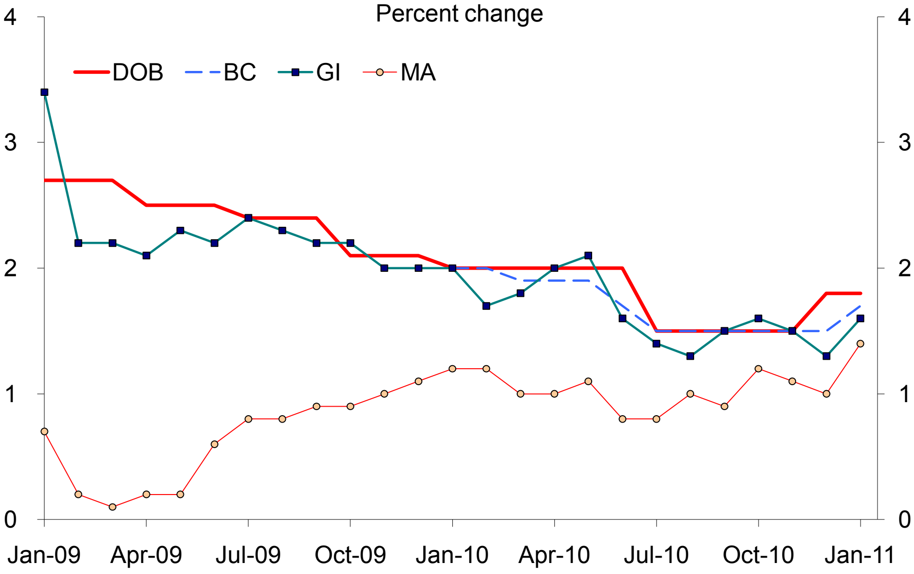
[1] See Joseph Gagnon, Matthew Raskin, Julie Remache and Brian Sack, "Large-Scale Asset Purchases by the Federal Reserve: Did They Work," Staff Report 441, March 2010, Federal Reserve Bank of New York, p. 28, accessed at <http://www.ny.frb.org/research/staff_reports/sr441.html>, viewed January 18, 2011.

Prior to raising the federal funds target rate, the Fed is also likely to begin by trying to implement the portfolio-adjustment portions of its "exit strategy," as it began to do gingerly this year before reversing course. That would involve shrinking its bloated balance sheet which could be done in a variety of ways, both passive (allowing maturing securities to "run off") and active (selling off parts of its portfolio).

Figure 26
Evolution of the CPI Forecast for 2011



Note: DOB does not revise its forecast every month.
Source: Global Insight; Macroeconomic Advisors; Blue Chip; DOB staff estimates.

Based on the policy framework described above and a relatively benign outlook for inflation over the near-term, the effective federal funds rate is projected to average 0.36 percent in 2011, with a 0.7 percent average for the fourth quarter. Figure 26 shows how four forecasts for 2011 inflation have evolved over time. Although the forecast range has narrowed over time, a substantial differential remains. Yet all are below 2.0 percent, the rate commonly thought to represent the Federal Reserve's target rate. Thus, the central bank can afford to wait until near the end of 2011 before starting to move away from its near-zero interest rate target However, a faster decline in the unemployment rate than anticipated as real GDP growth accelerates or a stronger pass-through of rising energy prices to core inflation could induce the Federal Reserve to move more quickly. Alternatively, another negative shock comparable to the one that hit during the spring of 2010 could delay a monetary policy shift even further.

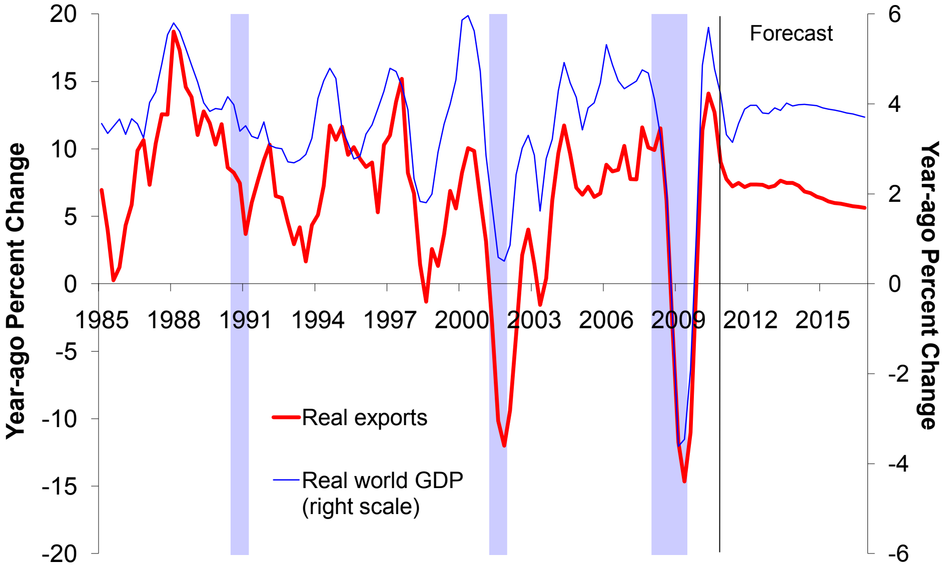
With a strengthening domestic and global economy, and growing government debt, the flight to safety that kept the 10-year Treasury yield at remarkably low rates has started to reverse itself. Since the announcement of QE2 and the subsequent improvement in equity markets, long-term rates have been rising. Indeed, it has become a subject for debate as to whether rates rose due to an increase in confidence engendered in part with the announcement of QE2 or despite QE2. An average 10-year Treasury yield of 3.51 percent is projected for 2011, following an average yield of 3.21 percent for 2010. The Budget Division expects the yield to reach an average of 4.21 percent in 2012.

However, if the Federal Reserve's exit strategy fails to work as planned and loses the confidence of global financial markets, long-term interest rates could climb much faster than is reflected in this forecast.

The International Economy

With the emerging economies continuing to grow more briskly than domestic U.S. demand, the nation's export sector remains a leading sector in the national recovery (see Figure 27). Since the end of the recession, real U.S. exports have grown at an average annualized quarterly rate of 12.8 percent. Growing global demand for U.S. goods and services is projected to result in a 7.4 percent increase in the real value of U.S. exports for 2011, following growth of 11.7 percent for 2010. Thus, exports are projected to contribute almost a full percentage point to growth in the current year.

Figure 27
Real Export and World GDP Growth



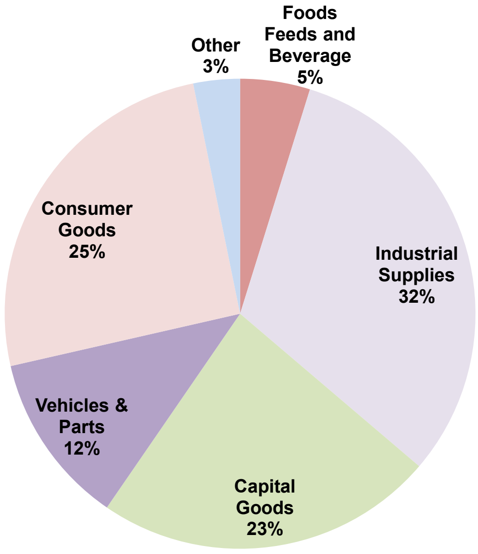
Note: Shaded areas represent U.S. recessions.
Source: Moody's Economy.com; IHS Global Insight; DOB staff estimates.

The global transmission of negative financial shocks was a pivotal force in dragging the international economy into the recession in late 2007, and as illustrated in Figure 28, when the euro-zone debt crisis hit in the early spring of 2010, equity markets worldwide felt the pain. Markets turned upward in early September, coinciding with a speech by the Chairman of the Federal Reserve announcing that the door was open for a new round of monetary easing. More recent equity market activity appears to reflect the expectation that the world's developed and developing countries will grow together, though some index-specific trends have emerged. For example, only the Japanese Nikkei has failed to surpass its early spring peak, while the Hong Kong Hang Seng has been on a downward path since early November.

Figure 28
The Synchronicity of Global Equity Markets in 2010

Source: Yahoo Finance.

Figure 29
2010 Share of Imported Goods by End-Use Category

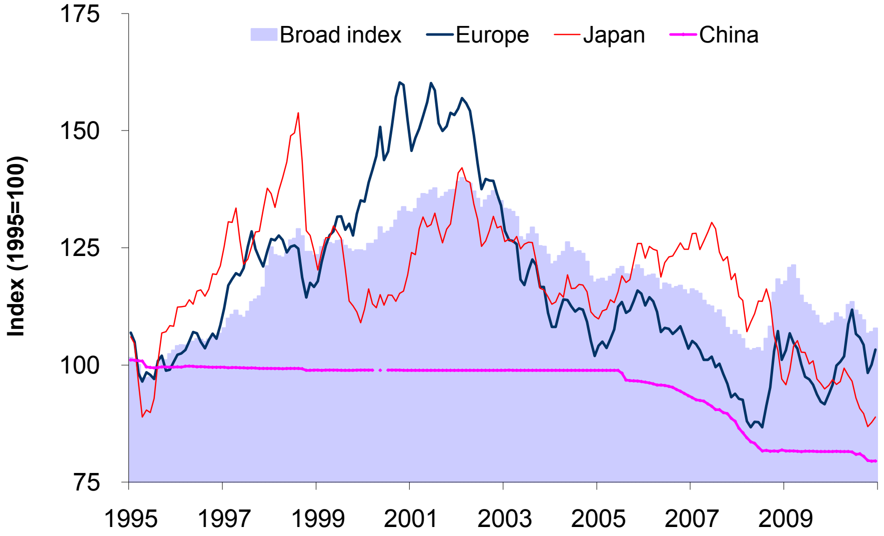


Note: Values are based on the first ten months of data.
Source: Moody's Economy.com.

Import growth also accelerated substantially in 2010. Though imports are a subtraction from GDP, their growth represents an increase in final sales and as such signals increasing household and business sector demand. Figure 29 decomposes U.S. imports for the first ten months of 2010. Although the Census Bureau does not break out final demand by sector, it is estimated that at least half the value of imports is business-related.[14] Thus, the increase in imports represents a firming of both household and business demand. As the recovery proceeds, real imports are projected to continue to grow, though at a slower quarterly pace than the 20.5 percent average annualized rate observed for the first three quarters of 2010. The value of real U.S. imports is projected to rise 8.9 percent for 2011, following 13.9 percent growth for 2010. Since the recession trough in the second quarter of 2009, the current account trade deficit has slowly begun to deteriorate once again. However, at 3.9 percent of nominal GDP for 2010Q3, the deficit is still well below its most recent 6.4 percent peak in the fourth quarter of 2005.

Figure 30

Foreign Exchange Value of U.S. Dollar



Note: The broad Index is a trade weighted index of major trading partners.
Source: Moody's Economy.com.

With the nation's trade deficit on the rise again and a historically large Federal government deficit, there is much concern over the future value of the dollar. As illustrated in Figure 30, the dollar has been falling against other world currencies, with the broad index, a trade-weighted index of the nation's major trading partners, falling 11.1 percent since its most recent near-term peak in March 2009. But the intervening period has been characterized by volatility as well, not surprising given the degree of turmoil in global financial markets. There have also been political challenges to the dollar as the world's premiere reserve currency, which could also contribute to the destabilization of the dollar. However, there continues to be little evidence of a decline in the willingness to hold U.S. dollar-denominated assets. Indeed, as indicated in Table 6, which lists the foreign holdings of U.S. Treasury securities, the desire to hold these securities has risen despite the dollar's loss of value. As the global expansion firms up and investors' appetite for risk induces diversification away from the safest of securities, the desire to hold U.S. Treasuries could wane, though the rise in U.S. interest rates that

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[14] Based on BEA estimates, about 44 percent of vehicles are purchased by private businesses; Census Bureau estimates indicate that 56 percent of industrial supplies is petroleum products, about half of which is consumed in various forms by businesses; See <http://www.eia.doe.gov/energyexplained/index.cfm?page=oil_refining#tab3> viewed January 4, 2011.

has already begun can be expected to mitigate that effect to some degree. Nevertheless, the projected rise in the nation's trade deficit, combined with an increasing Federal debt, continues to be a risk to the dollar, and therefore to the inflation forecast, over the long run.

TABLE 6
MAJOR FOREIGN HOLDERS OF TREASURY SECURITIES*
($ Billions)

	Japan		Mainland China		United Kingdom		Oil Exporters		Grand Total**	
	Level	Change	Level	Change	Level	Change	Level	Change	Level	Change
Jan-09	661.9	27.1	744.2	4.6	129.0	5.1	181.8	(4.8)	3,161.5	90.0
Feb-09	661.9	0.0	744.2	0.0	129.0	0.0	181.8	0.0	3,161.5	0.0
Mar-09	686.7	24.8	767.9	23.7	128.1	(0.9)	192.0	10.2	3,264.6	103.1
Apr-09	685.9	(0.8)	763.5	(4.4)	152.8	24.7	189.6	(2.4)	3,262.0	(2.6)
May-09	677.2	(8.7)	801.5	38.0	163.9	11.1	192.9	3.3	3,292.5	30.5
Jun-09	708.2	31.0	915.8	114.3	90.8	(73.1)	211.8	18.9	3,460.8	168.3
Jul-09	720.9	12.7	939.9	24.1	97.1	6.3	209.9	(1.9)	3,505.8	45.0
Aug-09	727.5	6.6	936.5	(3.4)	104.3	7.2	209.8	(0.1)	3,531.1	25.3
Sep-09	747.9	20.4	938.3	1.8	126.8	22.5	205.9	(3.9)	3,575.5	44.4
Oct-09	742.9	(5.0)	938.3	0.0	108.1	(18.7)	209.0	3.1	3,576.1	0.6
Nov-09	754.3	11.4	929.0	(9.3)	155.5	47.4	202.6	(6.4)	3,669.0	92.9
Dec-09	765.7	11.4	894.8	(34.2)	180.3	24.8	201.1	(1.5)	3,685.1	16.1
Jan-10	765.4	(0.3)	889.0	(5.8)	208.3	28.0	211.9	10.8	3,701.9	16.8
Feb-10	768.5	3.1	877.5	(11.5)	233.5	25.2	211.9	0.0	3,745.4	43.5
Mar-10	784.9	16.4	895.2	17.7	279.0	45.5	223.4	11.5	3,879.0	133.6
Apr-10	795.5	10.6	900.2	5.0	321.2	42.2	232.9	9.5	3,952.2	73.2
May-10	786.7	(8.8)	867.7	(32.5)	350.2	29.0	228.6	(4.3)	3,959.2	7.0
Jun-10	803.6	16.9	843.7	(24.0)	363.0	12.8	216.3	(12.3)	4,005.3	46.1
Jul-10	821.0	17.4	846.7	3.0	375.7	12.7	215.4	(0.9)	4,060.5	55.2
Aug-10	836.3	15.3	868.4	21.7	449.5	73.8	217.8	2.4	4,207.2	146.7
Sep-10	864.6	28.3	883.5	15.1	459.0	9.5	221.5	3.7	4,261.2	54.0
Oct-10	877.4	12.8	906.8	23.3	477.6	18.6	213.9	(7.6)	4,310.2	49.0

* Estimated foreign holdings of U.S. Treasury marketable and nonmarketable bills, bonds and notes are based on Treasury Foreign Portfolio Investment survey benchmarks and on monthly data reported under the Treasury International Capital (TIC) Reporting System.

** Grand Total is the total of all 27 countries included in the Portfolio Investment Survey.

Source: U.S. Department of the Treasury/Federal Reserve Board.

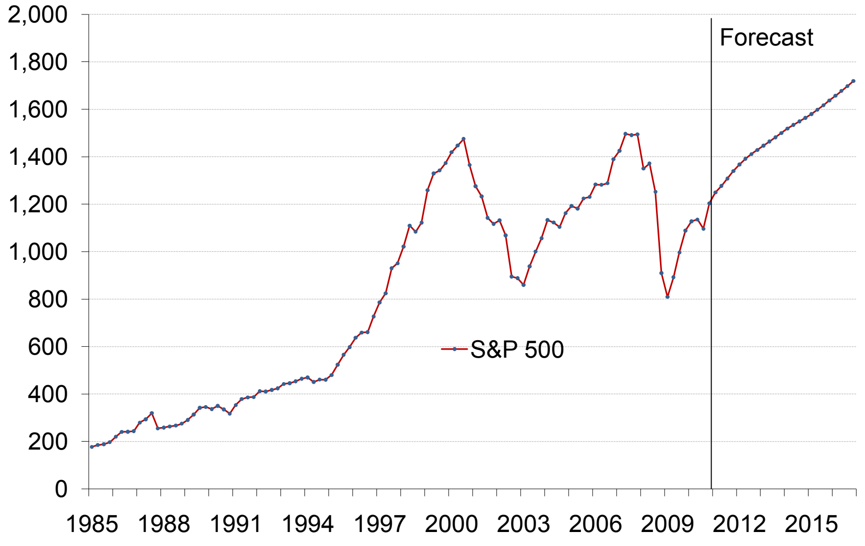
Outlook for U.S. Corporate Profits and the Stock Market

As illustrated above in Figure 7, U.S. corporate profits have continued to exhibit remarkable strength during the recovery, rising 64.8 percent between the end of 2008 and the third quarter of 2010. The 2008Q4 trough in profits was largely determined by the domestic financial sector, which posted net losses of $65 billion. But those losses had turned to gains by the first quarter of 2009; the TARP and other efforts to bring the global financial sector back from the brink made the finance industry a leading economic sector in the recovery from the recession. Both domestic nonfinancial profits and rest-of-world profits hit their respective troughs along with the rest of the economy in 2009Q2. However, the rest-of-world trough was quite shallow and profits have risen since then 14.8 percent through 2010Q3. Thus far during the recovery, domestic nonfinancial profits have risen 44.0 percent.

With interbank borrowing rates still low and financial sector firms appearing intent upon changing the compensation dynamic, domestic financial sector profits are expected to continue to grow over the forecast horizon, but given the recent changes in the regulatory environment, profits growth is expected to be well below the heady rates observed in 2009.[15] The domestic nonfinancial sector is also expected to continue to see profits growth as the national economy continues to expand, but with workforces already pared to the bone, and capacity utilization on the rise, profit growth has already slowed down from 16.2 percent in 2010Q1 to virtually no growth in 2010Q3. The Budget Division projects U.S. corporate profits from current production, which includes the inventory valuation and capital consumption adjustments, will grow 6.2 percent in 2011, following growth of 28.8 percent in 2010.

Figure 31

The Equity Bull Market Projected to Continue



Source: Moody's Economy.com; DOB staff estimates.

The equity market turbulence that characterized the 2008-2009 recession continued through the early phase of the recovery as well (see Figure 31). As of late April 2010, the S&P 500 had risen 80 percent from its March 2009 trough with investors appearing to be optimistic about the impact of domestic and global growth on corporate earnings. But when the euro-zone debt crisis erupted in the early spring, the shock was immediately transmitted to U.S. financial markets, widening risk spreads (as indicated in Figure 22 above) and reducing term spreads as investors sought the safety of long-term Treasuries. That shock and the resulting increase in investor risk aversion led to a 16 percent equity market correction between late April and early July, in conjunction with a slowdown in private sector job growth and declines in retail sales. Market sentiment appeared to get a boost at the end of August when the Federal Reserve reassured markets that it had additional policy options for stimulating the economy, setting equity prices on an upward path where it has largely remained.

Consistent with continued growth in corporate earnings, discounted by gradually rising interest rates, the Budget Division projects equity market growth of 13.4 percent for 2011 – implying an annual average level of 1,294 – following growth of 20.5 percent

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[15] A discussion of how Wall Street profits might be affected by financial market reregulation appears below.

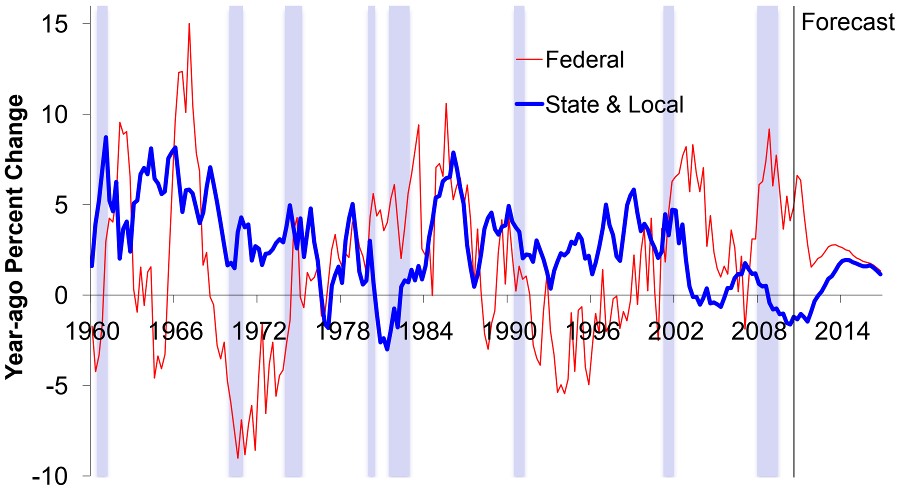
in 2010. Given the steep growth exhibited during the last four months of last year to its current level of about 1,280 as of the end of the third week of January, the Budget Division forecast for 2011 may not be difficult to achieve. Nevertheless, the S&P 500 is not projected to reach its prior peak until the fourth quarter of 2013.

Outlook for Government Spending

State and local government spending is typically a stabilizing factor during a downturn. Sales tax and withholding collections tend to be the most cyclically sensitive, while income tax receipts related to nonwage income tend to respond with more of a lag. In contrast, property tax revenues have traditionally tended to be the most cyclically stable. However, with the financial, real estate, and labor markets falling simultaneously, every source of state and local revenue has been and continues to be negatively affected by the most recent downturn. Figure 32 shows how in contrast to most prior recessions, real state and local government spending has fallen during every quarter since 2008Q4.

Figure 32

Real Government Spending Over the Business Cycle



Note: Shaded areas represent U.S. recessions.
Source: Moody's Economy.com; DOB staff forecast.

Unlike Federal government spending, state and local government expenditures are constrained by revenue flows, often by statute. It has been reported that state governments closed a cumulative budget gap of $83.9 billion in crafting their 2011 fiscal year budgets, while 15 states have had to close another round of gaps since their fiscal years began totaling $26.7 billion to date.[16] There is little doubt that these gaps would have been significantly greater were it not for the impact of ARRA. However, states will reportedly have $37.9 billion less in federal funding in their 2012 fiscal years than they had in 2011 due to the expiration of several key programs. Consequently, imbalances for the 31 states and Puerto Rico that provided estimates are projected at $82.1 billion for

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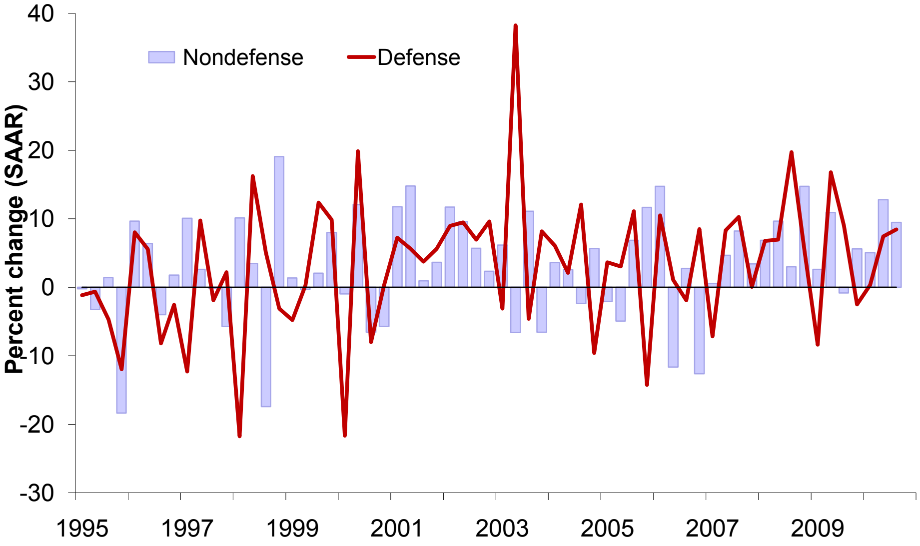
[16] See National Conference of State Legislatures, *State Budget Update: November 2010,* December 7, 2010, <http://www.ncsl.org/documents/fiscal/november2010sbu_free.pdf>, viewed January 9, 2011.

2012. Given the lag between revenue flows and economic activity described above, states will likely continue to be fiscally constrained even as the national recovery progresses, resulting in declining expenditures and employment. The Budget Division projects a decline in the NIPA definition of real state and local government spending of 1.2 percent for 2011, following a decline of 1.4 percent for 2010.

Figure 33

Real Federal Government Spending



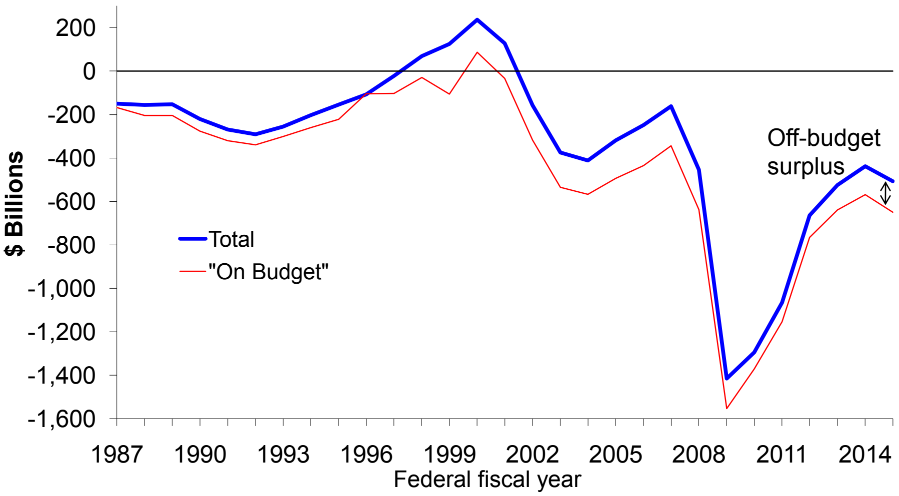
Source: Moody's Economy.com.

The nation's military involvement in both Iraq and Afghanistan continue to be important drivers of Federal spending. Since the beginning of the 2002-03 Federal fiscal year, real Federal government expenditures have risen 39.1 percent, largely driven by a 43.7 percent increase in defense spending. Over the 32 quarters from the fourth quarter of 2002 through the third quarter of 2010, real defense spending grew at an average annualized rate of 5.1 percent, compared to an average rate of 3.7 percent for nondefense spending (see Figure 33). However, more recently, nondefense spending has been accelerating, growing an average of 8.2 percent over the four quarters from 2009Q4 to 2010Q3, compared to 3.4 percent growth for defense spending. However, fiscal pressures can be expected to restrain future growth in the Federal budget as concern over the deficit mounts. The Budget Division projects slower growth of 3.7 percent in the NIPA definition of Federal government spending for 2011, after growth of 5.3 percent in 2010.

Although the impact of ARRA is not detectable in the NIPA definition of Federal government spending, it is very visible in the Federal government budget deficit for the Federal fiscal years (FFYs) 2008-09 and 2009-10. The "on-budget" deficit increased to a record $1,554.1 billion for FFY 2008-09 from $638.1 billion for the prior year, an increase of $916.0 billion (see Figure 34). The total deficit increased by an even larger $960.9 billion due to the shrinking of the off-budget surplus. With the improvement in the economy during 2010 fiscal year, the on-budget and total deficits shrank by $183.0

billion and $121.52 billion, respectively. According to Congressional Budget Office (CBO) estimates as of August 2010, the on-budget deficit is projected to fall further by $217.1 billion for FFY 2011, as Federal government revenues rise with the ongoing economic recovery. However, the level of the deficit is still projected to remain close to $1 trillion for the current year and consequently the nation's growing national debt remains a risk to the Budget Division interest rate and inflation forecasts for both the current year and the out-years.

Figure 34
Federal Budget Surplus or Deficit



Note: Values for 2010-2015 are Congressional Budget Office (CBO) estimates; off-budget surplus includes Social Security trust fund and Postal Service.
Source: Moody's Economy.com; Congressional Budget Office (CBO), *The Budget and Economic Outlook: An Update*, August 2010.

Comparison with Other Forecasters

Table 7 compares the Budget Division's (DOB) forecast for a selection of U.S. indicators with those of other forecasting groups. The 2011 forecasts for real U.S. GDP growth range from a low of 3.0 percent (DOB) to a high of 3.9 percent (Moody's Economy.com). The DOB 2011 inflation forecast of 1.8 percent represents the top of a relatively narrow forecast range. DOB's unemployment rate forecast for 2010 is at the bottom of what is also a very narrow range.

For a brief description of the methodology used by the Budget Division to construct its macroeconomic model for the national economy (DOB/US), see Box 6. For a more detailed description, see *New York State Economic, Revenue, and Spending Methodologies*, November 5, 2010.[17]

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[17] See <http://www.budget.state.ny.us/pubs/supporting/MethodologyBook.pdf >.

TABLE 7
U.S. ECONOMIC FORECAST COMPARISON

	2010	2011	2012
Real Gross Domestic Product (GDP)			
(2005 chained percent change)			
DOB	2.8	3.0	3.6
Blue Chip Consensus	2.8	3.1	3.2
Moody's Economy.com	2.9	3.9	NA
Global Insight	2.9	3.2	2.9
Macroeconomic Advisers	2.9	3.4	3.8
Consumer Price Index (CPI)			
(percent change)			
DOB	1.6	1.8	1.9
Blue Chip Consensus	1.6	1.7	1.9
Moody's Economy.com	1.6	1.5	NA
Global Insight	1.7	1.6	1.9
Macroeconomic Advisers	1.6	1.4	1.0
Unemployment Rate			
(percent)			
DOB	9.6	9.3	8.3
Blue Chip Consensus	9.7	9.4	8.7
Moody's Economy.com	9.6	9.5	NA
Global Insight	9.7	9.3	8.7
Macroeconomic Advisers	9.7	9.5	8.6

Source: New York State Division of the Budget, January 2011; *Blue Chip Economic Indicators* , January 2011; Moody's Economy.com, *Macro Forecast* , January 2011; Global Insight, *US Forecast Summary* , January 2011; and Macroeconomic Advisers, *Economic Outlook,* January 2011.

Risks to the U.S. Forecast

The Budget Division outlook calls for the recovery from the nation's worst recession since the 1930s to accelerate in 2011, but there are a number of significant risks to the forecast. Much of the renewed confidence in the recovery depends upon the improvement in the pace of job growth that is projected over the coming quarters. If that improvement fails to materialize, households may pull back once again, resulting in lower consumption growth than is reflected in this forecast. Weaker household spending would ripple through the economy and likely result in lower investment growth as well. A substantial equity market correction could have a similar effect. If home foreclosures accelerate substantially more than expected, a housing market recovery could be delayed that much further. A surge in foreclosures could also impede the recovery in home prices, which would in turn delay the recovery in household net worth, also resulting in lower rates of household spending than projected.

Credit markets have continued to improve but remain vulnerable. Renewed concerns over the sovereign debt problems emanating from the euro-zone generate news on virtually a daily basis. Although markets currently appear to be taking the news in stride, an unexpected development could result in widening risk spreads and a decline in equity markets. Both of these phenomena could derail the expected improvement in the pace of the recovery, with the anticipated pickup in consumption, production, and employment further delayed. The risks associated with the size of both the U.S. government debt and the Federal Reserve's balance sheet could induce a similar reaction. Since energy price growth acts as a virtual tax on household spending, faster growth of the price of oil than expected could also result in lower consumption spending than anticipated.

Alternatively, the impact of new Federal stimulus spending could accelerate the pace of the recovery beyond what is currently projected. A stronger than expected recovery in the labor market could increase household spending beyond what is currently projected, resulting in greater profits growth and stronger investment growth. Such an eventuality could also lead to stronger equity market growth than expected, and a faster recovery in household wealth. Finally, stronger global growth than expected could result in a faster pickup in the demand for U.S. exports than projected.

BOX 6
THE DIVISION OF THE BUDGET U.S. MACROECONOMIC MODEL

Macroeconomic modeling has undergone a number of important changes during the last 25 years, primarily as a result of developments in economic and econometric theory. These developments include the incorporation of both rational expectations and micro-foundations based on the long-run optimizing behavior of firms and households. In addition, analysts now employ more flexible specifications of behavioral relations within a vector autoregressive (VAR) model framework. Recent developments also include a more rigorous analysis of the time series properties of commonly used macroeconomic data series, as well as the implications of these properties for model specification and statistical inference. There has also been a significant improvement in the understanding of the long-run equilibrium relationships among macroeconomic data series and the predictive power of these relationships in constraining economic dynamics.

The Budget Division's U.S. macroeconomic model (DOB/U.S.) incorporates the theoretical advances described above in an econometric model used for forecasting and policy simulation. The model contains 98 core equations, of which 29 are behavioral. In addition, there are hundreds of auxiliary forecasting equations that incorporate the results from the core model as inputs. The current estimation period for the model is 1965:1 through 2009:3. Our analysis borrows heavily from the Federal Reserve Board model which was redesigned during the 1990s using the most up-to-date advances in modeling techniques. We are grateful to Federal Reserve Board economists for providing guidance and important insights as we developed the DOB/U.S. macroeconomic model.

In economic parlance, DOB/U.S. could be termed a neoclassical model. Agents optimize their behavior subject to economically meaningful constraints. Households exhibit optimizing behavior when making consumption and labor supply decisions, subject to a wealth constraint. Expected wealth is, in part, determined by expected future output and interest rates. Likewise, firms maximize profits when making labor demand and investment decisions. The value of investment is affected by the cost of capital, as well as expectations about the future path of output and inflation. The economy's long-run growth path converges to an estimate of potential GDP growth. Monetary policy is administered through adjustments to the federal funds rate, as guided by Taylor's Rule. Current and anticipated changes in this rate influence agents' expectations and the rate of return on various financial assets.

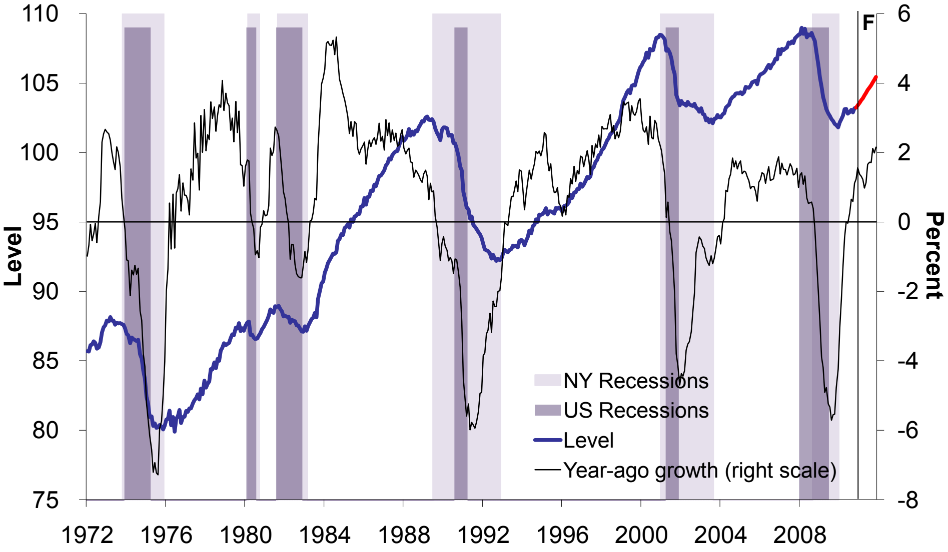
DOB/U.S. incorporates three key theoretical elements into this neoclassical framework: expectations formation, equilibrium relationships, and dynamic adjustments (movements toward equilibrium). The model addresses expectations formation by first assuming that expectations are rational and then specifying a common information set that is available to economic agents who incorporate all relevant information when forming and making their expectations. Long-run equilibrium is defined as the solution to a dynamic optimization problem carried out by households and firms. The model structure incorporates an error-correction framework that ensures movement back to long-run equilibrium.

The model structure reflects the microeconomic foundations that govern optimizing behavior, but is sufficiently flexible to capture the short-run fluctuations in employment and output caused by economic imbalances (such as those caused by sticky prices and wages). DOB/U.S. incorporates dynamic adjustment mechanisms that reflect the fact that while agents are forward looking, they do not adjust to changes in economic conditions instantaneously. The presence of frictions (costs of adjusting productive inputs, sticky wages, persistent spending habits) governs the adjustment of nonfinancial variables. These frictions, in turn, create imbalances that constitute important signals in the setting of wages and prices. In contrast, the financial sector is assumed to be unaffected by frictions due to the negligible cost of transactions and the presence of well-developed primary and secondary markets for financial assets.

THE NEW YORK STATE ECONOMY

As of February 2011, the New York State economy's recovery from the 2008-2009 recession is entering its 14th month. The Budget Division uses the State coincident economic index to determine the State's business cycle turning points (see Box 7). The index's level and growth are plotted in Figure 35 along with the turning points for both the New York and U.S. business cycles. Based on the index, the State economy is estimated to have experienced a business cycle peak in August 2008, fully eight months after the nation peaked as a whole. The index also indicates that the State recession ended in December 2009, implying a six-month lag and that the State recession was just a bit shorter than the national downturn. As of November 2010, the most recent month for which data are available, the State economy appears to be on a solid growth path, with the New York leading index signaling that the State economic growth can be expected to accelerate as 2011 progresses. The Budget Division projects State employment growth of 0.7 percent for 2011, on an annual average basis, following a decline of 0.1 percent for 2010.

Figure 35
New York State Index of Coincident Economic Indicators



Note: U.S. recession trough and NYS recession dates are DOB staff estimates; forecast (in red) is derived from the New York State Leading Index.
Source: Moody's Economy.com; DOB staff estimates.

As the table in Box 7 shows, the State economy lost about 353,000 private sector jobs during the last downturn, a loss of 4.8 percent from the peak and about 23,000 more than were lost during the 2001-2003 downturn. On a percentage basis, this was less than the 7.3 percent employment loss suffered by the nation as a whole. However, the associated loss of income was far greater for the State than for the nation. Between the first half of 2008 and the first half of 2010, the most recent period for which Quarterly Census of Employment and Wages (QCEW) data at the State level are available, U.S. wages fell 3.7 percent compared to a 6.5 percent decline for New York. When combined with the decline in real estate values, the Great Recession created enormous fiscal strain for municipal governments at every level.

BOX 7
NEW YORK STATE INDICES OF COINCIDENT AND LEADING ECONOMIC INDICATORS

In the absence of an official mechanism for dating business cycles at the sub-national level, DOB staff constructed a New York State Index of Coincident Economic Indicators measuring overall economic conditions for New York.[1] The methodology used to construct the index is based on the Stock and Watson methodology and rests on the notion that co-movements in many macroeconomic time series can be captured by a single unobserved variable representing the overall state of the economy.[2] Four State data series – private sector employment, hours worked in the manufacturing sector, the unemployment rate, and sales tax receipts (as a proxy for retail sales) – are combined into a single index using the Kalman filter, a common approach to the estimation of unobserved variables. Based on the DOB Coincident Index, six business cycles have been identified for New York since the early 1970s, as reported in the table below. A recession is judged to have begun if the DOB Coincident Index sustains three to five consecutive declines of significant depth. A similar approach is used to date business cycle troughs. The last column of the table below reports the number of private sector jobs lost due to the recession, although labor market cycles do not always coincide precisely with the technical business cycle dates.

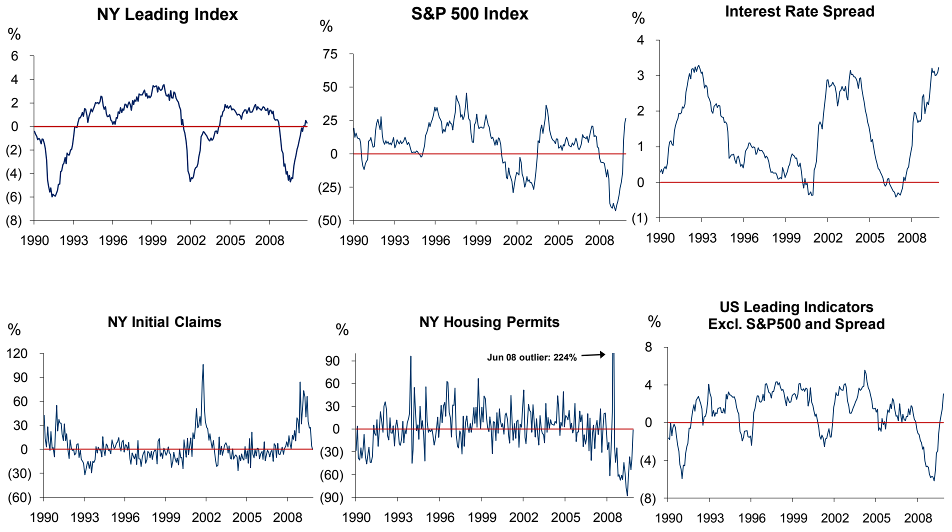
NEW YORK STATE BUSINESS CYCLES

Peak Date	Trough Date	Recession Length (in months)	Private Sector Job Losses
October 1973	November 1975	25	384,800
February 1980	September 1980	7	54,800
August 1981	February 1983	18	76,600
June 1989	November 1992	41	551,700
December 2000	August 2003	32	329,300
August 2008	December 2009	16	352,700

Source: DOB staff estimates.

In order to gauge the future direction of the State economy, the Budget Division produces the New York State Index of Leading Economic Indicators, which yields a forecast for the Coincident Index up to 12 months ahead. The forecasting model includes the following five leading economic variables in a vector autoregressive framework: the U.S. Index of Leading Economic Indicators (excluding stock prices and the interest rate spread), New York housing permits, New York initial unemployment insurance claims, stock prices, and the spread between the 10-year and one-year U.S. Treasury rates.

Variables Used in New York Index of Leading Indicators



Note: All percent changes are from prior year; the June 2008 outlier in housing permits is removed.
Source: Moody's Economy.com; DOB staff estimates.

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The long lag with which the New York economy entered the last recession contrasts sharply with the experience of the prior five downturns. As illustrated in Figure 35 on page 104, the State entered three of the five prior recessions earlier than the nation as a whole, and entered the remaining two only one month later. The State's estimated business cycle trough date is December 2009, which implies that New York's recession was two months shorter than that of the nation as a whole.

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[1] R. Megna and Q. Xu (2003). "Forecasting the New York State Economy: The Coincident and Leading Indicators Approach," International Journal of Forecasting, Vol 19, pages 701-713.

[2] J.H. Stock and M.W. Watson (1991), "A Probability Model of the Coincident Economic Indicators," in K. Lahiri and G. H. Moore (eds.), Leading Economic Indicators: New Approaches and Forecasting Records, New York: Cambridge University Press, pages 63-85.

The State coincident index indicates that New York's recovery got underway in early 2010, coinciding with a strong revival in Wall Street profits and bonuses. Finance and insurance sector bonuses grew 25.6 percent in the first quarter of 2010, after falling 49.9 percent in the same quarter of the prior year. With the support of the downstate economy's most important growth engine, employment grew 0.3 percent on a year-over-year basis in 2010Q2, the first quarter of such growth since the third quarter of 2008. However, despite the year-over-year improvement in both wages and employment, the early phase of the State's recovery was as fragile as that of the nation as a whole. When the euro-zone debt crisis that erupted in April was followed by the May 6th "flash crash" that saw the Dow Industrial Average plunge about 600 points in five minutes, both consumers and equity market investors pulled back. Consistent with national trends, the State's labor market recovery appeared to take a pause, with over 30,000 private sector jobs lost in May and June combined.

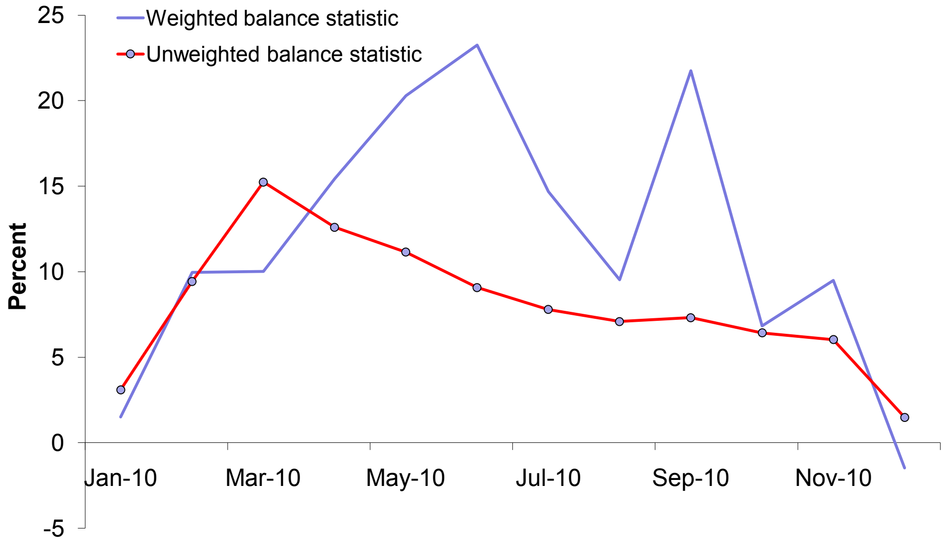
But by the end of the third quarter, financial market activity began to rebound. That development, combined with strong tourist activity and the support of Federal stimulus programs, appears to have put the State's economic recovery back on track. However, finance industry revenues remain well below their 2007 peak levels, and a substantial amount of uncertainty surrounds both finance industry profitability and executive compensation as a result of the recently passed financial reform package. Anecdotal evidence suggests that there could be a new paradigm developing on Wall Street, raising doubt as to whether the levels of compensation observed as recently as 2007-08 will ever be seen again. State wages are projected to rise 3.2 percent in 2011, following growth of 4.0 percent in 2010, with total personal income rising 5.0 percent in 2011, following growth of 3.9 in 2010. All of these growth rates are well below historical averages.

The New York State Establishment Survey

In cooperation with the Survey Research Institute at Cornell University, the Budget Division conducts a survey of New York State private business establishments to assess the direction of business sentiment in the State. Every month, the survey asks the manager or CEO of participating firms about the direction of change in various economic indicators for the current month as compared to the prior month and about their expectations for those same indicators for the coming three months. Participants are drawn from a random sample stratified by industry, region, and firm size. Based on survey results, two types of statistics are constructed. An unweighted statistic is constructed by comparing the percentage of firms reporting increases in the measure of interest with the percentage indicating declines, adjusting by the sampling probability for the appropriate stratum. The resulting statistic is referred to as "unweighted" since firms' responses are given equal weight without regard to each firm's share of total stratum employment. A weighted statistic amplifies the contribution of larger firms by weighting each firm by the size of its workforce.

Figure 36

Outlook for Employment Over the Next Three Months



Source: Survey Research Institute; DOB staff estimates.

Establishment Survey results for 2010 confirm how vulnerable the State's nascent labor market recovery was to global events. Figure 36 plots both the weighted and unweighted balance statistics for the year through December. The two statistics tell similar stories – a strong start to the year, followed by a derailment in the early spring due to the spread of the euro-debt crisis to U.S. financial markets; an improvement becomes visible in the fall. Since large firms carry more weight among the weighted statistics, it may not be surprising that the latter show the most improvement, possibly indicating that small firms are continuing to struggle more than large firms, particularly due to the differential in credit access. Both statistics turn downward in the final month of the year, possibly signaling a slower pace of recovery going forward.

Housing Sits Out the Recovery

Although New York lost a large share of income to the meltdown on Wall Street and the ensuing recession, the State did not experience as severe a downturn in its residential housing market as did the nation as a whole. Figure 37 compares the recent trend in housing starts in New York with the same for the nation. While the nation experienced a peak-to-trough decline in housing starts of 79.0 percent, the State's decline is estimated at less than 50 percent.[18] Figure 38 similarly compares the decline in New York City

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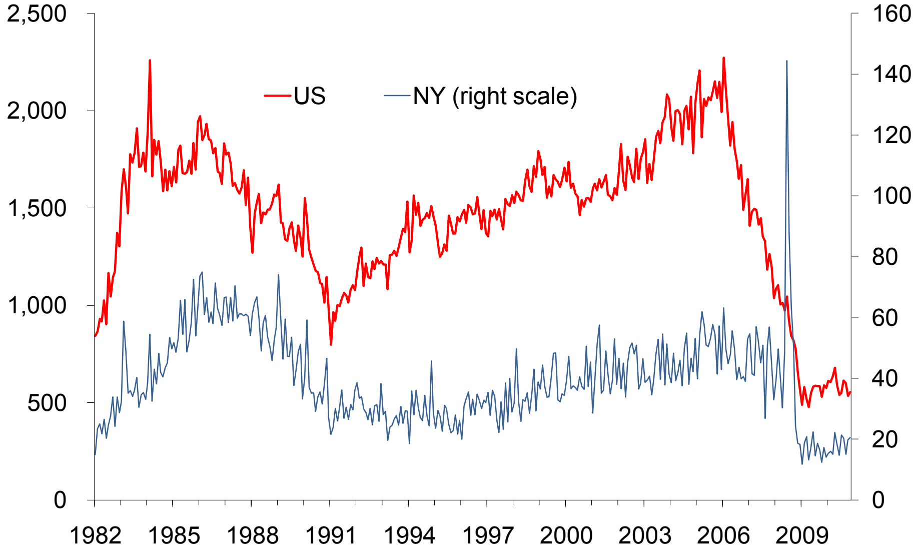
[18] A trough in the State housing starts series is hard to pinpoint due to a change in New York City building codes that took effect on July 1, 2008, requiring developers to add features such as sprinklers, smoke

single-family home prices, as measured by the S&P Case-Shiller home price index, with the single-family 10-city composite for the nation. Both price series experienced peaks in June 2006 and troughs in April 2009. However, the City's peak-to-trough decline was only 20.9 percent, compared with a decline of 33.5 percent for the national 10-city index. Just as for the nation, home prices in New York City rallied briefly as a result of the Federal home buyer's credit in the middle of 2010. But by August 2010, New York City prices began to fall again on a year-ago basis, and as indicated in Figure 38, national prices are heading in the same direction.

Figure 37

Housing Starts

Thousands of units



Source: Moody's Economy.com.

Because New York's residential housing sector experienced less of a price and construction bubble than many other states, there was less of an overhang to unwind, and as a result, a lower foreclosure rate than many other states. Figure 39 compares the percentage of outstanding mortgage loans entering foreclosure for New York to that of the nation as a whole. New York's foreclosure rate has been consistently lower than the nation's since the collapse of home prices in 2006. For example, for the third quarter of 2010, the most recent quarter for which data are available, 0.95 percent of the State's outstanding mortgage loans entered the foreclosure process, compared to 1.34 percent of U.S. loans.

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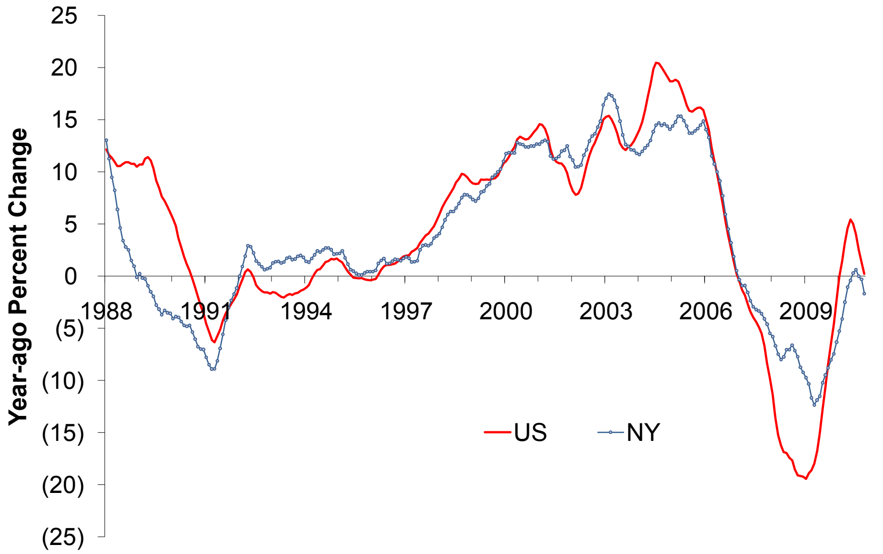
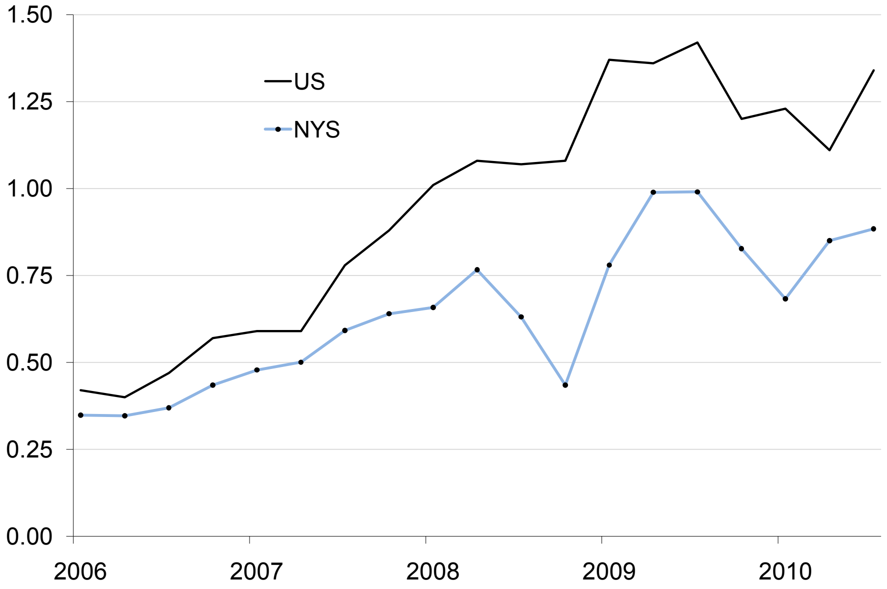
detectors, fire-resistant stairways, and on-site safety managers or coordinators for buildings larger than 10 stories. The change produced a rush to obtain building permits and start work in June of that year.

Figure 38
S&P/Case-Shiller Home Price Index



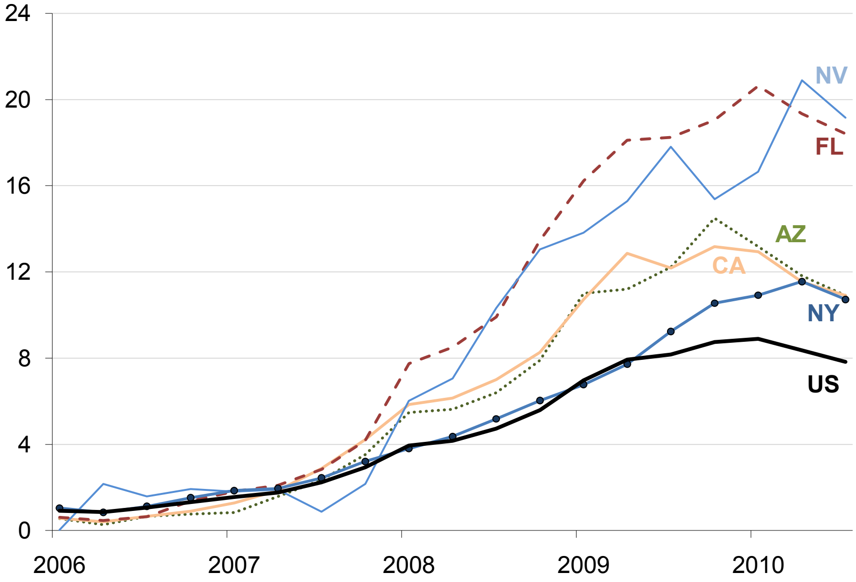
Source: Moody's Economy.com.

Figure 39
Percent of Mortgage Loans Entering Foreclosure Status



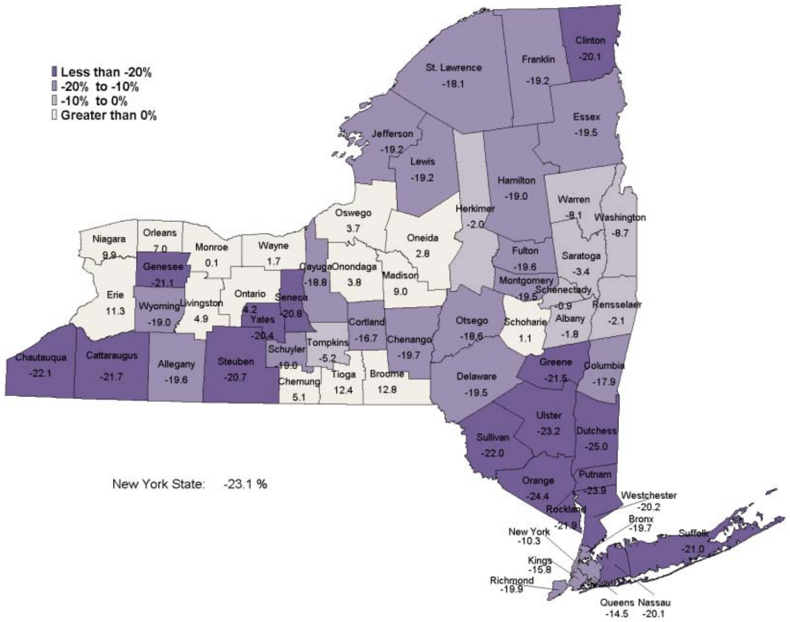
Source: Moody's Economy.com.

Figure 40
Percent of Mortgage Debt 90+ Days Overdue



Source: Federal Reserve.

Figure 41
Peak to Trough Changes in Median Home Price by County



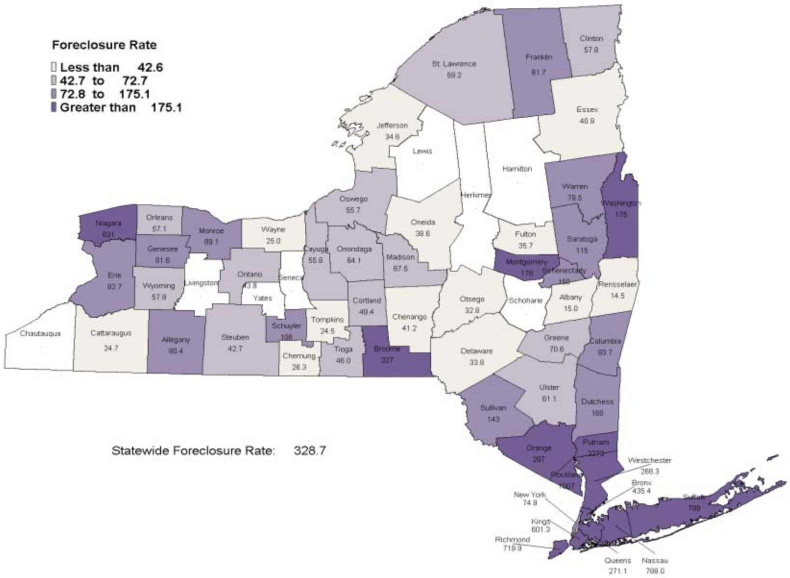
Note: New York State's median home price peak and trough were 2005Q4 and 2009Q3, respectively.
Source: Moody's Economy.com.

Figure 40 provides an alternative view of the State's foreclosure problem. Looking at the percentage of total mortgage debt outstanding that is 90 days overdue or more, New York looks not only worse than the nation, but on par with two of the states hit hardest by the housing market collapse, Arizona and California. As a relatively high-income state, New York home values tend to be high. The average S&P Case-Shiller home price index for New York City over the first ten months of 2010 is 17.6 percent higher than the 20-

city composite for the nation. Moreover, within the State, price declines were on average greater in the State's downstate counties than upstate, where home values tend to be much lower (see Figure 41). With the large number of high-income jobs lost downstate in the wake of the financial crisis, it is no surprise that that the delinquency rate among high-value homes exceeds that of low-value homes and accounts for these seemingly disparate views of New York's foreclosure problem (see Figure 42). The loss of wealth from the decline in home prices and the risk from the growing number of foreclosures represents an additional factor restraining the pace of the State's recovery from the recent recession.

Figure 42

December 2010 Foreclosure Rate per Million Housing Units



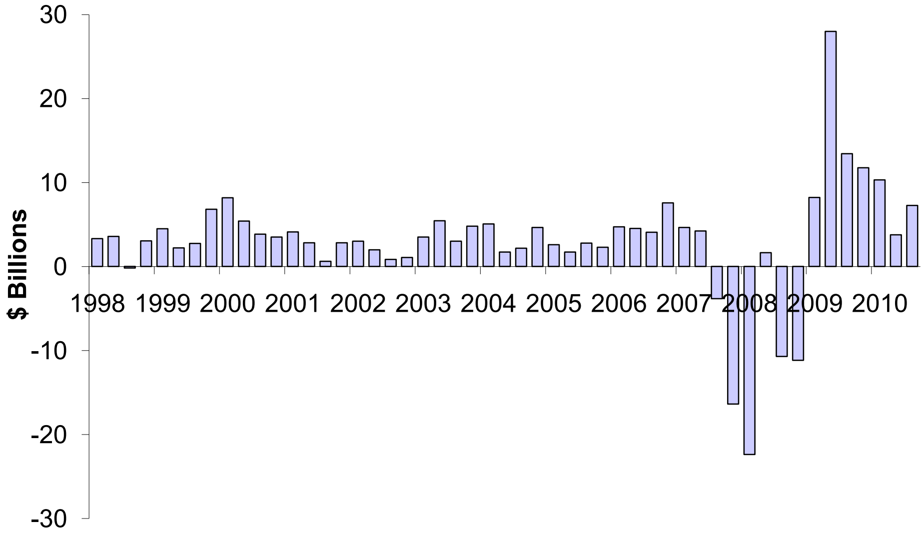
Source: Realty Trac.

A New World for the Securities Industry

The securities industry has undergone a dramatic turnaround since the darkest days of the financial crisis. Policy measures taken to restore liquidity to the banking system, including the TARP, the extraordinary expansion of the Federal Reserve's balance sheet, as well as its historic interest rate target policy, contributed to an environment that drove profits to new record levels (see Figure 43). Yet these lofty profits materialized despite levels of traditional investment banking activity such as corporate debt and equity underwriting activity that were well below their prerecession peaks. As is evident in Figure 44, the major drivers of securities industry profits, such as debt underwriting and initial public offerings (IPOs) had fallen to their lowest levels in decades in 2008, but saw some recovery in the second half of 2009. For example, 2009 "true" IPOs, which exclude closed-end funds, were more than three times their 2008 level, but still less than half of their 2007 prerecession peak. Similarly, total U.S. corporate debt underwriting was up 19.7 percent in 2009, but was less than half of its 2007 level. Activity levels improved further in 2010, with debt underwriting up 6.0 percent. Owing to the $15.8 billion General Motors IPO in November, one of the largest in history, true IPOs were up

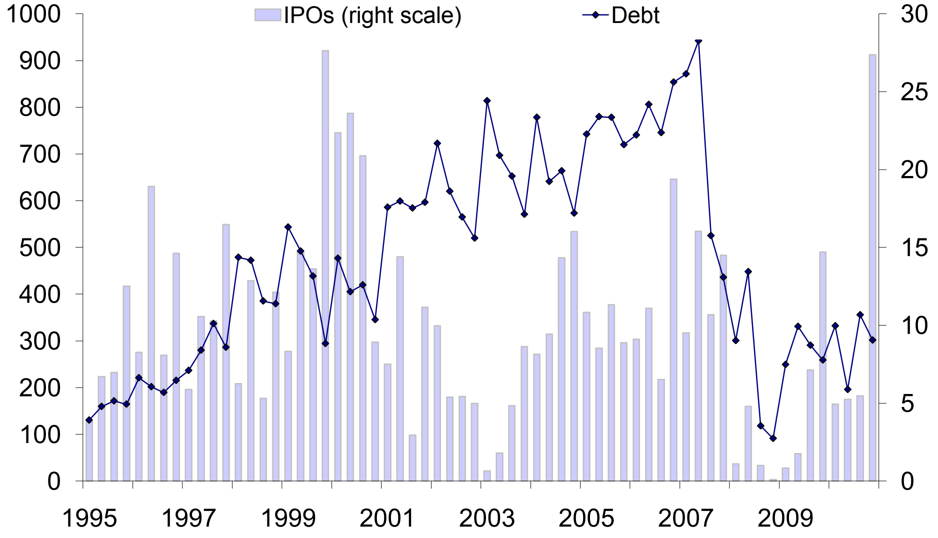
76.0 percent in 2010. Unlike straight corporate debt underwriting, the markets for convertible and securitized debt have continued to shrink.

Figure 43
Securities Industry Profits



Source: SIFMA; NYSE Euronext.

Figure 44
Major Drivers of Financial Market Activity
$ Billions

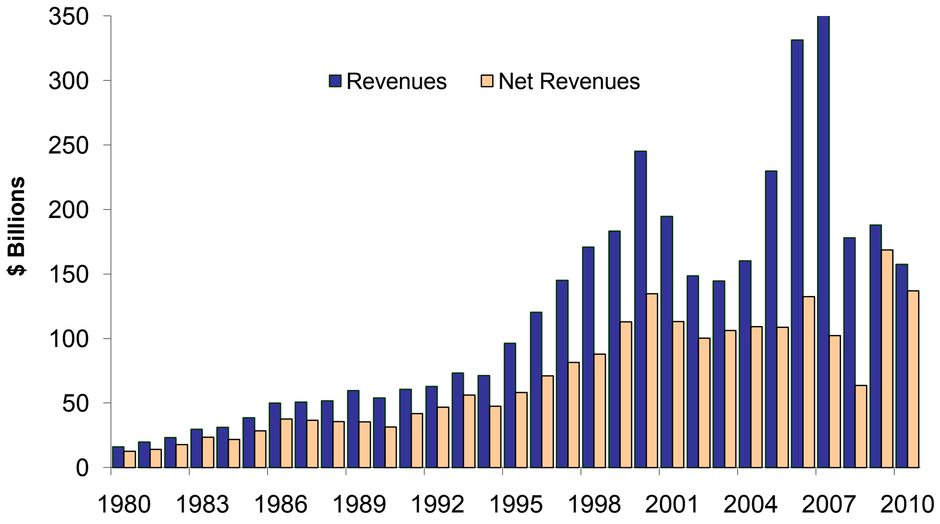


Source: Securities Industry and Financial Markets Association (SIFMA).

Despite substantial growth in equity markets in the fourth quarter and higher levels of many types of financial market activity, 2010 profits and revenues are likely to be lower than 2009. Figure 45 shows New York Stock Exchange member firm revenues before and after subtracting interest costs. Wall Street firms earned record levels of revenues in 2006 and 2007, but after subtracting the cost of borrowing the funds necessary to earn some of those revenues, their earnings were much smaller. By 2008, both revenues and net revenues were down 49.4 percent and 37.9 percent, respectively. However, with the Federal Reserve engineering near-zero interbank borrowing costs, the differential between revenues and net revenues were quite small in both 2009 and 2010. Thus, one might expect 2010 revenues to have been decisively better than 2009 for Wall Street. Yet, they do not appear to be heading in that direction.

Figure 45

NYSE Member Firm Revenues



Note: Estimate for 2010 is annualized based on three quarters of actual data; net revenues exclude interest expenses.
Source: SIFMA; NYSE Euronext.

TABLE 8
NYSE MEMBER FIRM FINANCIAL RESULTS
($ Billions)

	2007	2008	2009	2010*
Revenues	**352.0**	**178.1**	**188.1**	**157.4**
Commissions	28.8	30.2	25.6	23.4
Trading Gain (Loss)	(10.3)	(71.8)	29.5	21.8
Underwriting Revenue	23.2	16.5	20.1	19.2
All Other	310.4	203.2	125.4	93.1
Expenses	**363.4**	**220.7**	**126.6**	**128.9**
Total Compensation	69.6	59.8	61.3	64.4
Interest Expense	249.8	114.5	19.5	20.5
All Other Exppense	44.0	46.3	45.9	44.0
Pre Tax Net Income	**(11.3)**	**(42.6)**	**61.4**	**28.5**

* Estimate for 2010 is annualized based on three quarters of actual data.
Source: SIFMA; NYSE Euronext.

Table 8 lists the primary sources of revenue and expenses for the most recent four years. Clearly the two greatest areas of improvement in industry balance sheets for both

2009 and 2010 are the gains from proprietary trading and the decline in interest expenses. The industry's remarkable growth in trading gains is largely the result of the dramatic rise in equity markets since March 2009. A comparison of that run-up with the early stage of all of the bull markets of the last 50 years appears in Table 9. The bull market that began March 2009 is exceptional for the quick run-up in prices over its first 10 months of life. Indeed, only the bull market that began in August 1982 saw price acceleration of comparable speed. The strength of this market provided large profit opportunities for those market participants with ample access to funding like the large Wall Street institutions. Of course historically low interest rates reduced borrowing costs for those participants, further boosting the potential for profits. Equity markets hit a speed bump in April 2010, which was followed by a 16 percent correction, but market activity revived at the end of August, coinciding with signals that the Federal Reserve might become more proactive in stimulating labor market growth. Yet trading gains and revenues from sources other than underwriting are still likely to be down for the year.

TABLE 9
BULL AND BEAR MARKETS

						First 10-month Run-up	
Peak Dates	Percent Price Run-up	Bull Market Duration in Months	Trough Dates	Percent Decline	Bear Market Duration in Months	Dates	Percent Price Run-Up
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
8/3/1956	-	-	10/22/1957	(21.5)	14.6	8/15/1958	21.9
12/12/1961	85.7	49.7	6/26/1962	(28.0)	6.5	4/19/1963	32.3
2/9/1966	78.8	43.6	10/7/1966	(22.2)	7.9	7/31/1967	29.4
11/29/1968	47.2	25.8	5/26/1970	(36.1)	17.9	3/19/1971	45.8
1/11/1973	73.5	31.6	10/3/1974	(48.2)	20.8	7/28/1975	42.4
9/21/1976	73.1	23.7	3/6/1978	(19.4)	17.5	12/28/1978	10.8
1/6/1981	58.9	34.1	8/12/1982	(25.8)	19.2	6/6/1983	60.9
8/25/1987	228.8	60.5	12/4/1987	(33.5)	3.4	9/26/1988	20.9
7/16/1990	64.8	31.4	10/11/1990	(19.9)	2.9	8/5/1991	30.3
3/24/2000	417.0	113.6	10/9/2002	(49.1)	30.5	8/1/2003	26.2
10/9/2007	101.5	60.1	3/9/2009	(56.8)	17	12/31/2009	64.8

Source: Moody's Economy.com.

One important development that may impede revenue growth over both the near-term and the long-term is the change in the regulatory environment. Since the president signed the Dodd-Frank Wall Street Reform and Consumer Protection Act into law in July, 2010, the details of implementation have been a work in progress. While Box 8 outlines many of the key provisions of the reform, it can probably be said that the two provisions having the greatest impact on current market activity are the bank regulations commonly referred to as the "Volker Rule" and the provisions related to executive compensation. As summarized below, the Volker Rule puts restrictions on trades banks engage in with their own funds. Such trades must be related to serving the needs of their clients, and while much room remains left for interpretation, evidence suggests that firms are already altering their business practices in order to comply with the new rules. These changes are most likely having a negative impact on revenues.

BOX 8
THE DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT KEY PROVISIONS

On July 21, 2010, the President signed into law the long awaited financial reform package hammered out by the Congress in the preceding months. The purpose of the Act is to prohibit banking entities from assuming excessive risk, but the two provisions that appear to be having the most immediate effects on Wall Street behavior are those related to executive compensation and the so-called "Volker Rule," which limits the volume of proprietary trading a bank is allowed to engage in.

Executive compensation

Shareholders get the right to a nonbinding vote on executive pay and "golden parachute" packages; compensation committees for firms listed on stock exchanges must have independent directors and can hire their own compensation experts; the Securities and Exchange Commission (SEC) gets enhanced regulatory authority.

Derivatives

The Act establishes Federal oversight of the derivatives markets, with the SEC and Commodity Futures Trading Commission (CFTC) given authority to regulate over-the-counter derivatives; a greater role is created for third-party clearinghouses; foreign-exchange swaps are to be regulated.

Hedge funds

Hedge funds and private-equity advisers will be required to register with the SEC as investment advisers and provide information about their trades and portfolios as needed to assess systemic risk; asset threshold of investment advisers subject to federal regulation raised to $100 million from the current $30 million.

Bank regulation (the "Volker Rule")

Banks are prohibited from proprietary trading, i.e., using their own money to place directional market bets that are unrelated to serving clients, although certain asset classes are exempt, including U.S. Treasury bonds, agency bonds and municipal obligations; bank ownership in hedge funds and private equity funds is capped at three percent.

Federal Reserve reform

Federal Reserve's emergency lending authority is restricted to broad-based programs; counterparties and information about amounts and terms and conditions of emergency and discount-window lending and open-market transactions to be disclosed on a delayed basis.

Systemic risk

The Act creates a 16-member Financial Stability Oversight Council empowered to 1) recommend rules to the Federal Reserve on capital, leverage, liquidity and risk management as firms grow in size and complexity; 2) require by a 2/3 vote the Fed to regulate a nonbank holding company if it believes that the company could pose a risk to financial stability in the U.S.; approve by 2/3 vote a Fed decision to breakup large complex companies if they pose "grave threats" to financial stability as a last resort.

(continued on next page)

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“Too big to fail”

Taxpayers are not responsible for saving failing financial companies or cover the costs of liquidation; requires large, complex financial companies to submit plans for their rapid and orderly shutdown; penalties imposed if the plans are inadequate; creates an orderly liquidation mechanism for the FDIC to use to unwind failing systemically important financial firms that forces shareholders and unsecured creditors to bear the losses; establishes that most large financial firms that fail will be resolved through bankruptcy.

Mortgage reform

The Act requires that institutions ensure that borrowers can repay the loans they take out; prohibits financial incentives for certain subprime loans to be made; prohibits prepayment penalties; lenders must disclose the maximum a borrower could pay on variable-rate mortgages and that payments will vary based on interest-rate changes; requires companies that sell products like mortgage-back securities to retain at least five percent of the credit risk unless the underlying loans meet standards that reduce riskiness.

Other provisions

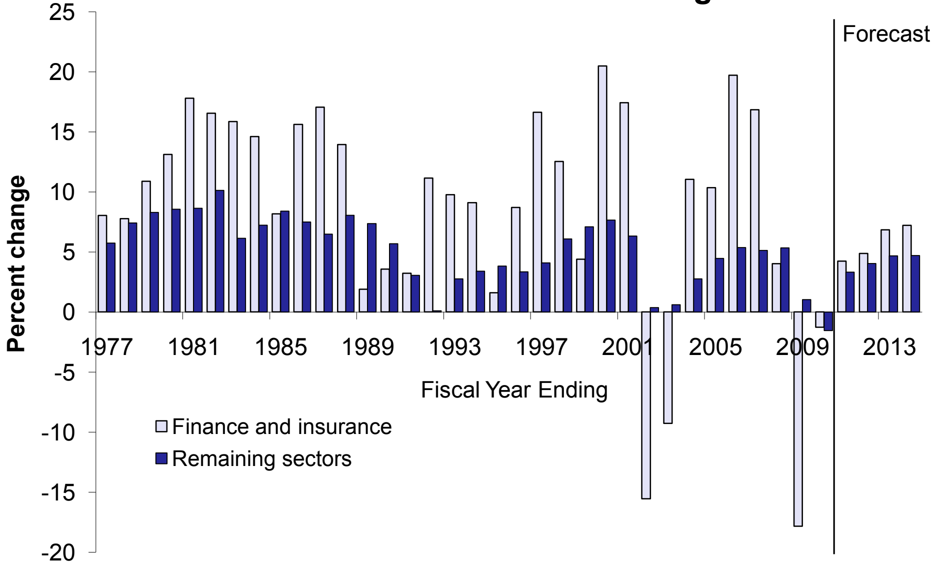
The Act creates a Consumer Financial Protection Bureau, a Federal Insurance Office in the Department of the Treasury, and an Office of Credit Ratings within the SEC.

Although the regulations governing executive pay are still being written, Wall Street firms know they are in the crucible. Finance sector compensation is likely to change in several ways. Bonus packages can be expected to contain a higher ratio of stock grants to cash, with the stock grants paid out over several years, more closely tying pay to the long-term performance of the firm. To reinforce such long-term incentives, packages are also likely to contain claw-back provisions that allow the firm to take back a portion of bonus pay if actions taken by an employee are ultimately judged to have been too risky. Finally, firms may sacrifice some bonus pay in favor of higher base pay, in order to discourage extremely risky behavior for short-term gain. Though some firms have made public announcements related to bonus pay, the ultimate impact of financial reform on industry wages will not be known until bonuses are paid out later in the first quarter and in future years.

Outlook for State Income

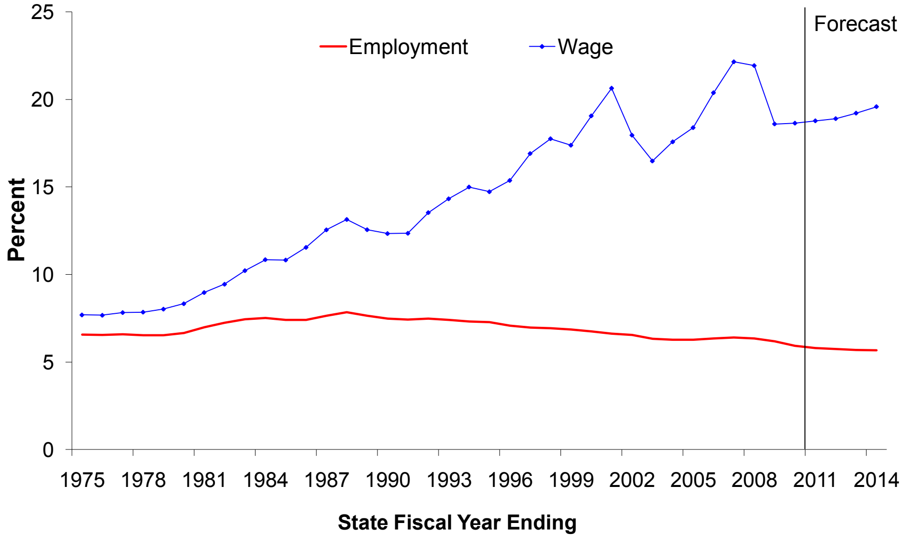
The financial crisis resulted in a record decline in finance and insurance sector bonuses of 37.1 percent for the 2008-09 bonus season. This decline, combined with large job losses, led to a historic decline in State wages of 7.2 percent for 2009. Indeed, State wage growth largely has been led by the finance and insurance sector in recent years (see Figure 46). With improved conditions on Wall Street, particularly near-zero borrowing costs for the largest banks, bonuses grew over 25 percent during the first quarter of 2010, resulting in 6.8 percent growth for all of 2009-10. Indeed, the Budget Division estimates that some bonus pay related to the sector’s 2009 performance “leaked” into the second quarter of 2010, implying even more generous payouts than the 2009-10 estimate suggests. However, due to the return of tumultuous conditions to financial markets and the fallout from financial reform, the Budget Division estimates moderate growth in finance and insurance bonuses of 3.7 percent for 2010-11. Total State wage growth of 3.2 percent is estimated for 2011, following 4.0 percent growth for 2010. Growth in both the wage and non-wage components of income will result in total personal income growth of 5.0 percent for 2011, following growth of 3.9 percent for 2010.

Figure 46
New York State Wage Growth Finance and Insurance vs. Remaining Sectors



Source: NYS Department of Labor; DOB staff estimates.

Figure 47
Finance and Insurance Sector Employment and Wages as Share of State Total



Source: NYS Department of Labor; DOB staff estimates.

Because the state-level wage data published by the U.S. Bureau of Economic Analysis have proven unsatisfactory for the purpose of forecasting State tax liability, the Budget Division constructs its own wage and personal income series based on Quarterly Census of Employment and Wages (QCEW) data. Moreover, because of the importance of trends in variable income – composed of stock-related incentive income and other one-time bonus payments – to the understanding of trends in State wages overall, the Budget

Division has developed a methodology for decomposing wages into bonus and nonbonus series. For a detailed discussion, see Box 9. The Budget Division's outlook for State income is based on these constructed series.

BOX 9
THE CONSTRUCTION OF NEW YORK STATE WAGES AND THE ESTIMATION OF VARIABLE INCOME

Trends in State wages are critical to an accurate analysis and forecast of personal income tax liability and collections. To improve the link between the economic and tax variables on a quarterly basis, the Division of the Budget (DOB) constructs its own wage series from the available primary data sources. This series differs from the data published by the U.S. Bureau of Economic Analysis (BEA).

The DOB uses only New York data to construct its State wage series. The primary source is data collected under the Quarterly Census of Employment and Wages (QCEW) program. In contrast, the BEA uses national information to adjust the quarterly values for seasonal variation, as well as to ensure that state level wages add up to national estimates. The consequence is often a significant difference between the two series in both the quarterly pattern and the annualized growth rates. For example, according to staff estimates based on the QCEW data, wage growth rates for the first and second quarters of 2000, on a year-ago percent-change basis, were 18.3 percent and 8.5 percent, respectively. The comparable growth rates originally published by the BEA were 2.4 percent and 5.4 percent. These estimates have since been revised up to 7.5 percent and 9.1 percent, respectively. However, the lack of timeliness in the revision process limits the usefulness of BEA data for state forecasting purposes.

A comparison with yet another source of wage data also demonstrates the greater accuracy of the QCEW data. Since the amount of wages withheld for personal income tax purposes varies systematically with wages itself, withholding data provide a useful guide for estimating State wage growth. For example, wages withheld during the first quarter of 2000 were 18.6 percent above withholding for the same quarter of the previous year. This estimate is much more consistent with the growth rate derived from the QCEW data than with the BEA's estimate of 2.4 percent.

Once an entire year of QCEW data becomes available, the BEA revises its state level wage data to be more consistent with that data source. For this reason, DOB's method performs well in anticipating the BEA's revised estimates of annual growth in New York wages. To make the actual magnitudes of the Division's wage series more strictly comparable to the BEA wage series, noncovered and unreported legal wages must be added to wages taken directly from the QCEW data. The addition of these components typically changes the annual growth rate for State wages by no more than two tenths of one percentage point.

An increasing portion of New York State wages has been paid on a variable basis, in the form of either bonus payments or proceeds derived from the exercise of stock options. Because no government agency collects data on variable income as distinct from ordinary wages, it must be estimated. DOB derives its bonus estimate from firm level data collected under the QCEW program. This method allows a large degree of flexibility as to when individual firms actually make variable income payments. However, as with any estimation method, some simplifying restrictions are necessary. DOB's method incorporates the assumption that each establishment makes variable income payments during at most two quarters of the year. However, the determination as to which quarters contain these payments is made at the firm level.

Firms report their wages to the QCEW program on a quarterly basis. A firm's average wage per employee is calculated for each quarter. The average over the two quarters with the lowest average wages is assumed to reflect the firm's base pay, that is, wages excluding variable pay. If the average wage for either of the remaining quarters is significantly above the base wage, then that quarter is assumed to contain variable income.[1] The average variable payment is then defined as total average wage minus the base average wage, after allowing for an inflation adjustment to base wages. Total variable pay is then calculated by multiplying the average bonus payment by the total number of firm employees. It is assumed that only private sector employees earn variable pay.

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[1] The threshold adopted for this purpose was 25 percent. However, the variable income estimates are fairly robust to even a five-percentage-point swing in this criterion.

Because of the prominence of New York City in the world of finance, New York State employment and incomes are profoundly affected by the fortunes of the financial markets. Figure 47 shows how finance and insurance sector wages as a share of the State total have grown over time on a State fiscal year basis. That share is estimated to have peaked at 22 percent during the 2006-07 bonus season, surpassing at last the 2000-01 peak that was reached just as the stock market was collapsing earlier in the decade. Due to the large projected declines in bonuses, the finance and insurance sector's wage share is estimated to have fallen to about 18.6 percent in 2008-09, rising only very gradually from that level. In contrast to its large wage share, finance and insurance sector employment is estimated to account for only 5.8 percent of total State employment for the current fiscal year, with that share projected to fall to 5.7 percent in 2011-12. The industry is projected to continue to shed jobs in 2011 and see only modest job growth in 2012.

The financial markets affect employment and income in New York City and its surrounding suburbs, both directly – through compensation paid to finance sector workers and purchases made by finance sector firms, and indirectly – as finance sector workers spend their incomes on housing, entertainment, other purchases, and so on. Despite recent declines, finance sector workers continue to be, on average, very highly compensated. In the 1979-80 State fiscal year, the average finance and insurance sector wage was only 27 percent higher than the average wage for the rest of the State economy. For 2006-07, that gap is estimated to have grown to 315 percent. Between 1979-80 and 2006-07, total finance and insurance industry wages increased more than tenfold, while employment rose by only 14 percent. For the rest of the economy, total wages in 2006-07 were not even three times what they were in 1979-80, while employment grew 19 percent. However, with finance and insurance sector wages falling faster than employment, the average sector wage is estimated to have fallen to $185,000 for 2009-10, a decline of 13 percent from its 2007-08 peak of $206,000, but still 264 percent higher than the average wage for the rest of the State economy.

Variable Income Growth

Variable income is defined as that portion of wages derived primarily from bonus payments, stock incentive income, and other one-time payments. As performance incentives for a given calendar year, firms tend to grant employee bonus "packages" during either the fourth quarter of that year or the first quarter of the following year. Although the cash component of bonus income is unambiguously counted (and taxes withheld) in the quarter in which it was granted by the firm, stock incentive income typically is not. Stock grants do not appear in the wage data until they are vested. Nevertheless, variable income payments are sufficiently concentrated in the fourth and first calendar-year quarters to make the State fiscal year a logical period of analysis for discussing the determinants of variable income growth.[19]

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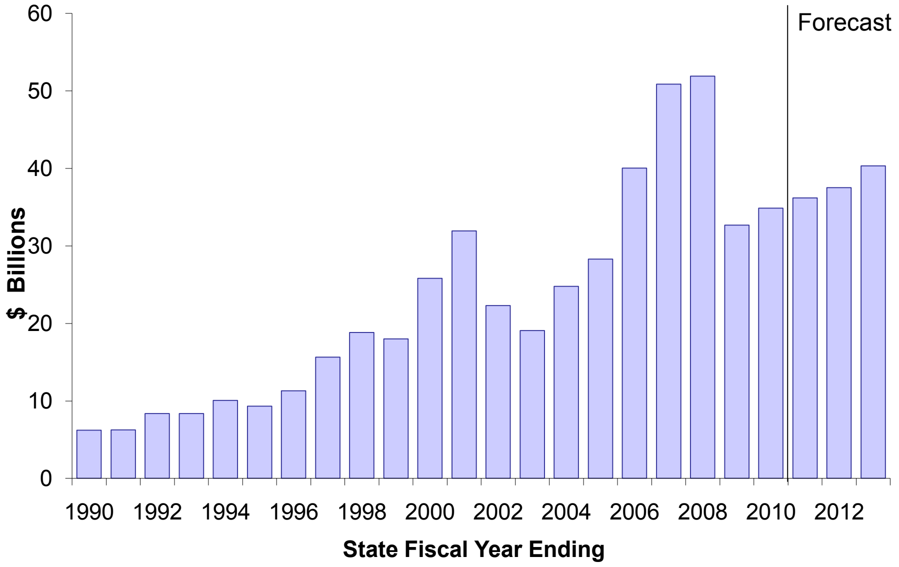
[19] See Box 9 on page 28 for a more detailed discussion of bonus estimation.

Figure 48
New York State Finance and Insurance Sector Bonuses



Source: NYS Department of Labor; DOB staff estimates.

Since 1990, there has been a substantial shift in the State's corporate wage structure away from fixed-pay to performance-based pay. Figure 48 portrays how dramatically variable income paid to employees in the finance and insurance industry has grown since the early 1990s. The robust performance of security industry profits during 1999 and 2000 resulted in finance and insurance sector bonus growth of 43.5 percent and 23.7 percent in the 1999-2000 and 2000-01 State fiscal years, respectively, to levels that accounted for more than half of total bonuses paid in the State. An incentive-based payment structure allows employers to share with employees the risks of doing business and is particularly attractive to the securities industry, given the degree of volatility in industry profits. For example, when NYSE-member firm profits fell from $21 billion in 2000 to $6.9 billion in 2002, finance and insurance sector bonus income is estimated to have fallen 40 percent from State fiscal year 2000-01 to 2002-03. In contrast, nonbonus wages for this sector are estimated to have fallen about 13 percent during the same period. Changes in nonbonus wages are largely determined by changes in employment and inflation.

The Budget Division projects total State variable income to increase 5.0 percent in the current fiscal year, followed by an increase of 4.0 percent for 2011-12, primarily due to slow growth in finance and insurance sector bonuses. As discussed above, the securities industry posted record profits for 2009, but industry executives are under tremendous pressure to cap the cash portion of bonus payouts and to restructure the overall bonus package to enhance incentives that favor long-term objectives over short-term gains. Consequently, the Budget Division is projecting only a very modest increase in the cash portion of finance and insurance sector bonuses of 3.7 percent for the 2010-11 bonus season now in progress.[20] This results in a payout of $36.2 billion, which is about $1.3

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[20] Were it not for the "leakage" of some large bonus payments into 2010Q2, finance and insurance sector bonuses would be estimated to fall 9.9 percent for 2010-11, following growth of 14.5 percent for 2009-10.

billion higher than 2009-10. The Budget Division projects roughly the same growth for 2011-12 to $37.5 billion. The 2011-12 projection would bring finance and insurance sector bonuses to a level that is still about $2.5 billion below that of 2005-06.

The Budget Division model for finance and insurance sector bonuses is based on the underlying volume of activity that generates industry earnings, such as IPOs and corporate debt underwriting. As indicated in Figure 44 on page 112, the most recent data available suggest that the volumes of debt underwriting and IPOs are improving but can be expected to remain low relative to their prior peaks. Historically, the volume of underwriting activity has been closely correlated with growth in the secondary market for equities that drives this activity. But despite strong equity market growth of 13.4 percent projected for 2011, represented by growth in the S&P 500 stock index, it could take a long time for the industry to return to the record levels of activity that characterized 2006 and 2007. The high volume of activity in those years was in part related to the financial engineering bubble that produced the subprime debt debacle at the root of the current crisis.

Given the pressures to re-incentivize and cap employee compensation, the income outlook for the finance industry is highly uncertain at present, producing a high degree of risk to the Budget Division bonus forecast. Historically, there has been a close relationship between New York Stock Exchange (NYSE) member-firm profits and finance and insurance sector bonus payouts. Though bonus payouts have in the past been evenly split between cash and stock incentive payments, the split is expected to be more heavily weighted toward stocks going forward as firms seek to reconstruct their compensation packages. This shift could have substantial implications for Federal, State, and local tax revenue, since income derived from stock grants is not taxed until the stocks vest. In addition, with new regulations being developed pursuant to the Dodd-Frank Act, the business model that earned large profits from highly-leveraged assets is being transformed. This change could result in lower profits for the industry going forward and creates a substantial degree of uncertainty surrounding this outlook.

Nonbonus Wages

Unlike the variable component of income, nonbonus wages are driven by changes in employment and the nonbonus average wage and, therefore, are relatively more stable. After adjusting for inflation, the nonbonus average wage for each of the State's industrial sectors is believed to have a stable long-run relationship with the real U.S. average wage, which in turn is determined by labor productivity. However, State real average wages can deviate from their long-run trend due to short-term fluctuations related to business cycles, shocks to the regional economy, or shocks to a specific industrial sector that is relatively more important to the State economy, such as finance and insurance. Nonbonus average wages are projected to rise 3.2 percent for the 2011 calendar year, following an estimated increase of 2.2 percent for 2010. With declining unemployment, total nonbonus wages are projected to grow 4.0 percent for 2011, following an increase of 2.1 percent for 2010.

Average Wages and Inflation

Average wages are estimated to increase 4.2 percent for 2010, largely as a result of higher bonuses, followed by a projected increase of 2.4 percent for 2011. The Budget Division projects growth in the composite CPI for New York of 1.9 percent for 2011, following growth of 1.8 percent for 2010. Projected 2011 inflation for New York is consistent with that for the nation.

Nonwage Income

The Division of the Budget projects a 7.1 percent increase in the nonwage components of State personal income for 2011, following an increase of 3.7 percent for 2010. This swing largely reflects a decline in the employee contribution to social security of 12.5 percent for 2011, consistent with the payroll tax holiday, and growth of 6.1 percent for proprietors' income as conditions for small businesses start to improve. In contrast, transfer income growth is estimated to slow to 3.1 percent in 2011, after growth of 6.5 percent for 2010 and 12.2 percent in 2009. This slowdown reflects the unwinding of Federal stimulus programs that support low income households.

Outlook for Employment

The New York State labor market shed about 23,000 more jobs during the 2008-2009 recession than in the wake of September 11, but still fared better than the national workforce. Table 10 compares the percentage change in State employment for the second quarter of 2010, the most recent quarter for which Quarterly Census of Employment and Wage (QCEW) data are available for New York, to the change in employment for the nation as a whole. U.S. employment was still falling on a year-over-year basis in the second quarter of last year, while State employment saw its first year-over-year increase since the third quarter of 2008.

Table 10 presents some interesting differences. In the two industries that have been the mainstays of the State economy, education and healthcare, New York leads the nation. In retail trade and leisure, hospitality, and other services, the State is experiencing growth, while the nation is still declining. This contrast is likely related to New York City's status as a shopping and tourist mecca, aided by a weakened dollar. The State's construction and real estate and rental and leasing sectors are seeing smaller declines than the nation, another sign that New York's housing market collapse was not as severe as nationwide. However, in three of the State's higher wage areas – manufacturing; finance and insurance; and professional, scientific, and technical services – the State declines are larger than the nation's.

TABLE 10
YEAR-AGO PERCENT CHANGE IN EMPLOYMENT FOR 2010Q2: NYS v. US

	NYS	US
Total Private	**0.1**	**(0.8)**
Utilities	(2.6)	(0.8)
Construction	(5.5)	(7.9)
Manufacturing and Mining	(4.2)	(2.1)
Wholesale Trade	(1.7)	(0.9)
Retail Trade	1.8	(0.7)
Transportation and Warehousing	(1.8)	(1.8)
Information	(1.1)	(3.3)
Finance and Insurance	(2.8)	(2.1)
Real Estate and Rental and Leasing	(1.4)	(2.3)
Professional, Scientific, and Technical Services	(1.9)	(1.5)
Management, Administrative, and Support Services	2.2	2.6
Educational Services	2.2	1.9
Healthcare & Social Assistance Services	2.2	1.9
Leisure, Hospitality and Other Services	2.3	(0.3)
Government	**1.2**	**0.6**
Total	**0.3**	**(0.5)**

Note: Management, and administration and support services includes NAICS sectors 55 and 56; sum of sectors may not match the total due to the exclusion of unclassified.

Source: NYS Department of Labor; DOB staff estimates.

The Budget Division projects total State employment growth of 0.7 percent for 2011, with private sector jobs increasing 1.2 percent. This compares to growth of 1.3 percent and 1.8 percent, respectively, for the nation, and implies that the national labor market fell more steeply but will stage a quicker comeback than New York. Table 11 reports projected changes in employment for selected groups of North American Industry Classification System (NAICS) sectors. Five sectors are expected to see their fortunes change from declines in 2010 to growth in 2011 – construction; wholesale trade; transportation and warehousing; real estate and rental and leasing; and professional, scientific, and technical services. These developments coincide with a bottoming out of the State's real estate market, growing demand for the State's leading-edge business service producing industries, and an expanding economy more generally. The manufacturing and finance and insurance sectors are expected to continue to decline on an annual average basis in 2011, but the declines are projected to be much smaller than in 2010. The only sector expected to see steeper job losses in 2011 than in 2010 is government, an indication of the fiscal strains that will continue to be experienced by governments at all levels, particularly as the Federal stimulus funding tapers off.

An examination of labor market dynamics through the second quarter of 2010, the most recent quarter for which data are available, confirms the emergence of the labor market from the recent downturn. Box 10 describes the methodology used to perform the analysis. Figure 49 shows the gross rates of job creation and job destruction for the period from 1993Q1 through 2010Q2. The percentage rates of gross job creation and destruction are represented by lines and measured on the left-hand axis, while the net job creation index is represented by bars and measured on the right-hand axis.

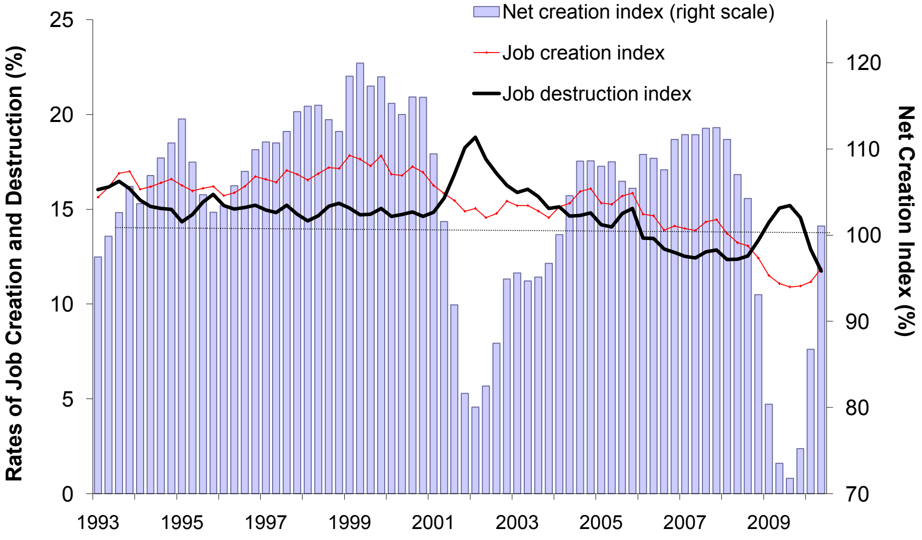
TABLE 11
CHANGE IN NEW YORK STATE EMPLOYMENT FOR 2011

	Percent	Levels
Total Private	**1.2**	**79,500**
Utilities	(0.5)	(200)
Construction	0.2	500
Manufacturing and Mining	(0.8)	(3,900)
Wholesale Trade	0.8	2,700
Retail Trade	1.0	8,900
Transportation and Warehousing	1.1	2,300
Information	(0.2)	(600)
Finance and Insurance	(0.3)	(1,700)
Real Estate and Rental and Leasing	0.9	1,600
Professional, Scientific, and Technical Services	1.1	6,100
Management, Administrative, and Support Services	1.9	10,200
Educational Services	2.0	6,000
Healthcare & Social Assistance Services	2.0	26,200
Leisure, Hospitality and Other Services	2.1	21,500
Government	**(1.3)**	**(18,300)**
Total	**0.7**	**61,200**

Note: Management, and administration and support services includes NAICS sectors 55 and 56; sum of sectors may not match the total due to the exclusion of unclassified.

Source: NYS Department of Labor; DOB staff estimates.

Figure 49
NYS Private Sector Employment Dynamics



Source: NYS Department of Labor; DOB staff estimates.

When the State's economy was booming during the early part of the period, the gross number of jobs created well exceeded the gross number destroyed. However, the tide turned in 2001 with the onset of the 2001 national recession. Thus, the State labor market had already been losing momentum when the September 11 attacks occurred. The full impact of that tragedy on an already weakened economy is seen during the first quarter of

2002, when the gap between the gross rates of job destruction and job creation was at its widest. The job gap began to close soon afterward, though pausing in early 2003, perhaps indicating the impact of the Iraq war on the business sector outlook. By late 2003, the economic stimulus provided by the expanding national economy was enough to bring the State's 2001-2003 recession to an end.

A strong U.S. economy combined with strong global growth helped to keep the State's net job creation index above 100 percent from the first quarter of 2004 through the third quarter of 2008. Because a significant portion of the State economy is export-oriented, particularly the manufacturing sector, there is a strong association between State export growth and private sector job growth. But by the first quarter of 2008, a loss of momentum begins to be discernible. Figure 49 shows the gross rate of job creation starting to fall in the first quarter of 2008 and the gross rate of job destruction rising by the following period. The third quarter of 2009 represents a peak in the rate of job destruction and a trough in the rate of job creation, with the State labor market showing improvement from that point on. The very low net rate of net job creation in the second quarter of 2010, the first since the third quarter of 2008, is consistent with the Budget Division estimate of virtually no change in private sector jobs in 2010, followed by a 1.2 percent increase in 2011.

BOX 10
ANALYZING PRIVATE SECTOR EMPLOYMENT DYNAMICS AT THE ESTABLISHMENT LEVEL

The expansion or contraction of an industry over time is usually measured by the net change or net growth in jobs. However, a look beneath the net numbers into the mechanics of job creation and destruction at the establishment level facilitates a deeper understanding of the underlying dynamics.[1] During times when State employment is growing slowly, or even falling, an examination of the underlying dynamics reveals an extremely active labor market – even in the worst of times, new firms are created and existing firms add jobs. For example, though private sector employment fell 2.4 percent in 2002, about 39.7 percent of the State's business establishments created jobs. The data for this study derive from the Quarterly Census of Employment and Wages (QCEW) program.[2] These data include all establishments subject to Federal unemployment insurance laws and cover approximately 98 percent of all employment. For the second quarter of 2010, the most recent period for which data are available, the QCEW data covered 574,815 private sector establishments in New York State and 6,913,761 private sector employees.

Establishment-level data facilitate the investigation of questions that cannot be addressed at the aggregate level. Such questions include whether the primary source of job creation is new firm startups or existing firms that have chosen to expand, or whether net employment growth is the result of an increase in the rate of job creation or a decrease in the rate of job destruction. Two industries may exhibit the same net change in employment but one may have a high job turnover rate, resulting from high gross rates of gains and losses, while the other may have a low turnover rate. Previous studies have found that an increase in the turnover rate tends to be associated with an increase in net growth.[3] Hence, the underlying dynamics may give clues as to the near-term direction of the business cycle, and an industry that suddenly starts to experience an increase in firm startups or gross job creation may turn out to be a leading industry in the economy's next growth phase. Moreover, one can also determine whether new jobs are being created in relatively high-wage or low-wage industries.

(continued on next page)

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[1] For a similar analysis for the U.S., see U.S. Bureau of Labor Statistics (BLS), "Business Employment Dynamics: First Quarter 2005," <http://www.bls.gov/news.release/pdf/cewbd.pdf>.

[2] For a detailed description of QCEW data, see 2003-04 *New York State Executive Budget, Appendix II*, page 100.

[3] See R. Jason Faberman, "Job Flows and Labor Dynamics in the U.S. Rust Belt." Monthly Labor Review, September 2002, Vol. 125, No. 9, pages 3-10.

(continued from previous page)

Because QCEW data are not seasonally adjusted, comparisons over time should be restricted to the same quarter of various years. We therefore analyze job growth relative to the same quarter of the previous year. Comparability across time also requires normalizing by a common base. Because the jobs that were eliminated between the two quarters are no longer in the 2010 job count, we follow BLS and define the base as the average of the two quarters.

The gross number of jobs created between the second quarter of 2009 and the second quarter of 2010 is constructed by adding together the number of jobs created by firm startups (firms which existed during the second quarter of 2010 but did not exist four quarters prior), expanding firms that existed in both quarters, and firms created through mergers and acquisitions. Between the second quarter of 2009 and the second quarter of 2010, a total of 820,483 jobs were created from these three sources. Performing this calculation for the second quarter of 2010 produces the following:

$$\text{Gross rate of job gain} = \frac{\text{Startup gain} + \text{Existing firm gain} + \text{M\&A gain}}{\text{Base}} = \frac{820{,}483}{6{,}909{,}431} = 11.9\%$$

This result indicates that the State's gross rate of job creation for the second quarter of 2010 is 11.9 percent. An analysis of job creation at the establishment level also confirms the conventional wisdom that small firms are the State economy's primary growth engine. For example, of the nearly one million gross number of jobs created during the second quarter of 2010, 58.5 percent were created by firms with less than 50 employees. Another 24.4 percent were created by medium sized firms of between 50 and 250 workers, and the remaining 17.0 percent by large firms with workforces exceeding 250.

We similarly construct a gross rate of job destruction by adding together employment at firms that existed in the second quarter of 2009 but not in the second quarter of 2010, jobs lost from contracting firms that existed in both quarters, and jobs lost due to a merger or acquisition. We then divide by the State's job base (as defined above), which for the second quarter of 2010 yields:

$$\text{Gross rate of job loss} = \frac{\text{Startup loss} + \text{Existing firm loss} + \text{M\&A loss}}{\text{Base}} = \frac{811{,}821}{6{,}909{,}431} = 11.7\%$$

This result states that the gross rate at which jobs were lost between the two quarters is 11.7 percent. Thus, for the second quarter of 2010, the gross rate of job creation exceeded the gross rate of job destruction. A net index of job creation is constructed by dividing the gross rate of job gains by the gross rate of job losses. For the second quarter of 2009, this calculation yields:

$$\text{Net index of job creation} = \frac{\text{Gross rate of job gain}}{\text{Gross rate of job loss}} = \frac{11.9\%}{11.7\%} = 101.1\%$$

A net index value of exactly 100 percent implies that the gross number of jobs created is entirely offset by the number of jobs destroyed; a value above 100 percent, as we see above, indicates that employment is growing; a value below 100 percent indicates a net job loss, implying the presence of a "job gap."

As illustrated in the table below, two industries can have similar values for the net index but have very different underlying dynamics. For example, for the second quarter of 2010, the retail trade sector and the management and support sector had similar net indices of job creation of 68.8 percent and 66.5 percent, respectively. However, the management and support sector has a much higher turnover rate than the retail trade sector. Understanding these differences has implications for fine-tuning the Budget Division employment forecast.

Employment Dynamics Comparison: 2010Q2

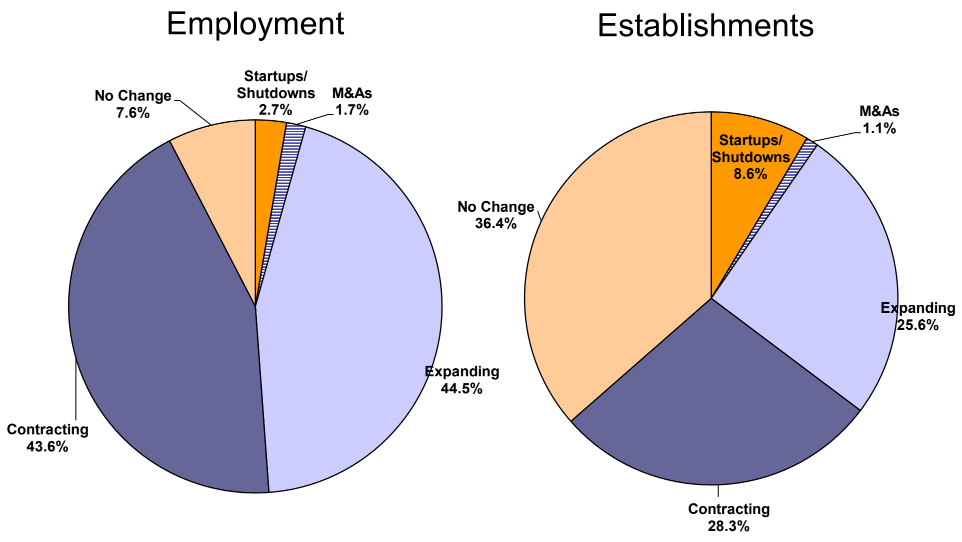
Sector (NAICS code)	Gross rate of job creation	Gross rate of job destruction	Net index of job creation
Construction (23)	16.9%	22.6%	75.0%
Mining and Manufacturing (21, 31-33)	9.7%	14.0%	69.3%

The State's Employment and Establishment Base

Figure 50 shows the composition of the State's employment and establishment base for the second quarter of 2010 by type of establishment. Startups and shutdowns accounted for 8.6 percent of the establishment base for 2010Q2. Because these firms tend to be quite small, averaging only about four employees per firm, they accounted for only 2.7 percent of the State's private sector employment base. Firms that were either acquired or absorbed by other firms accounted for 1.1 percent of the establishment base. The average size of these firms was about 19 employees and accounted for 1.7 percent of employment.

Existing firms are classified according to whether their employment levels (a) expanded, (b) contracted, or (c) experienced no change relative to the same quarter of the prior year. Existing firms represent an overwhelming share of both establishments and employment, 90.4 percent of the State's establishment base and 95.6 percent of the job base. As indicated in the right hand panel of Figure 50, the three types of existing firms accounted for roughly similar shares of establishments: 25.6 percent, 28.3 percent and 36.4 percent, respectively. This tends not to be the case for the shares of the total job base accounted for by expanding, contracting and "no change" firms, which are 44.5 percent, 43.6 percent, and 7.6 percent. That the job share of expanding firms is just a bit higher than that of contracting firms is consistent with the very low rate of net job creation for the quarter. The average size of existing firms also varies by firm type, with those firms experiencing no change in employment averaging less than three employees, expanding firms averaging 22 employees, and contracting firms averaging 17. These differences in firm size explain net job creation can be positive, even though there are more contracting firms than expanding firms.

Figure 50
Composition of State's Employment and Establishment Base
2010Q2

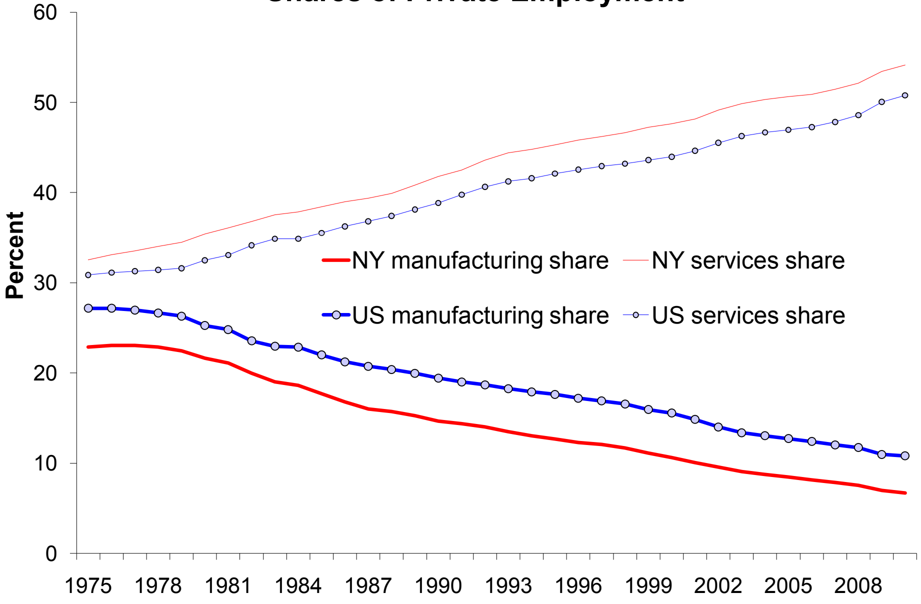


Source: NYS Department of Labor; DOB staff estimates.

Manufacturing

The Budget Division's forecast for the manufacturing and mining sector represents a continuation of a long-term downward trend.[21] Since the mid-1970s, New York's comparative advantage has shifted away from manufacturing in favor of services (see Figure 51), and the manufacturing sector continues to experience significant job losses. Competitive pressures arising from increased globalization have resulted in the decline of State manufacturing employment each year since 1984, with the rate of job loss accelerating during recessions. The 3.7 percent decline in manufacturing jobs estimated for 2010 would bring sector employment 60.0 percent below its 1984 level of about 1.2 million workers. For 2011, employment is expected to fall another 0.8 percent to approximately 457,000 workers. These estimates correspond to projected job losses of 17,900 in 2010 and 3,900 in 2011. The State's manufacturing sector continues to be negatively affected by the ongoing stress in the nation's auto industry and the increasing globalization of production, but the strengthening of the national and global economies should increase the demand for goods manufactured in New York, resulting in a smaller job decline for 2011 (see Figure 52 and Figure 53).

Figure 51
Manufacturing and Service Sector Shares of Private Employment



Source: Moody's Economy.com; NYS Department of Labor.

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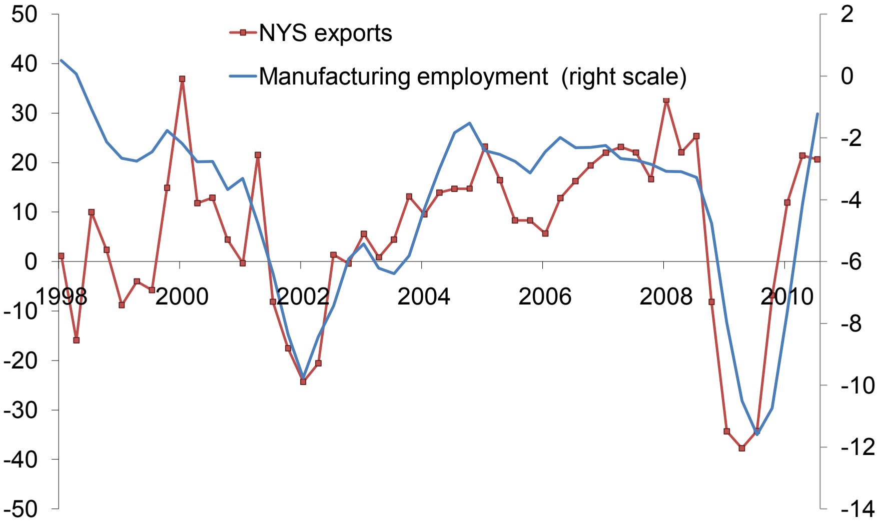
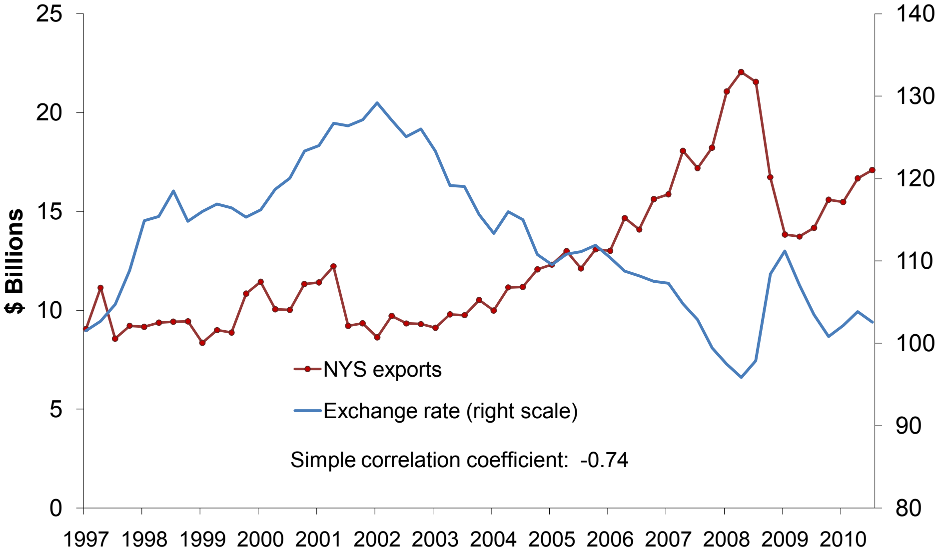
[21] The Budget Division combines manufacturing and mining for forecasting purposes. As of the second quarter of 2010, mining accounted for less than 0.1 percent of total employment in this category and will be ignored for the remainder of the discussion.

Figure 52
NY State Exports and Manufacturing Employment
Year-ago percent change



Note: The two series have a simple correlation coefficient of 0.59.
Source: Moody's Economy.com.

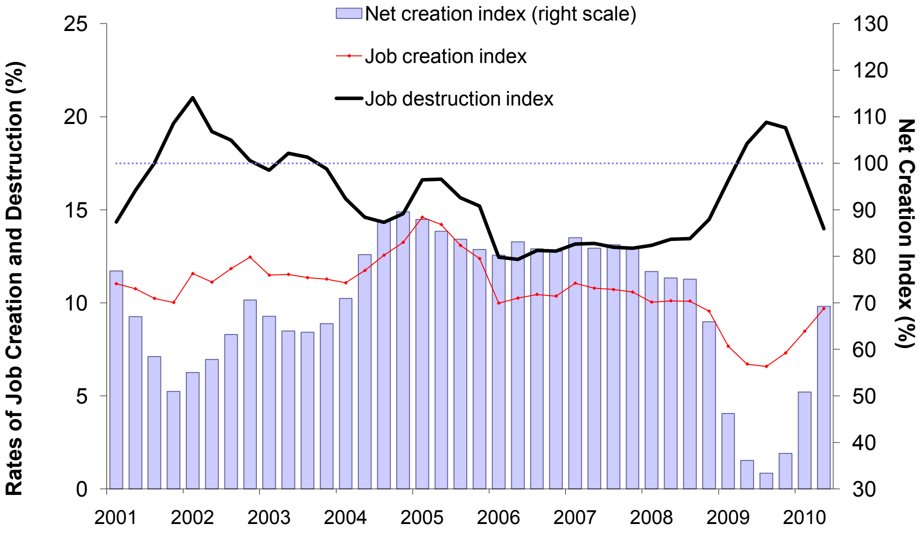
Figure 53
Dollar Exchange Rate Index and NYS Commodity Exports



Source: Moody's Economy.com.

The State has been losing manufacturing jobs for a long time and now employs less workers in that sector than in both the finance and insurance sector and the professional, scientific, and technical services sector. Nevertheless, the manufacturing sector is important in the upstate regions, where it still accounts for a significant share of private employment.

Figure 54
Mining and Manufacturing



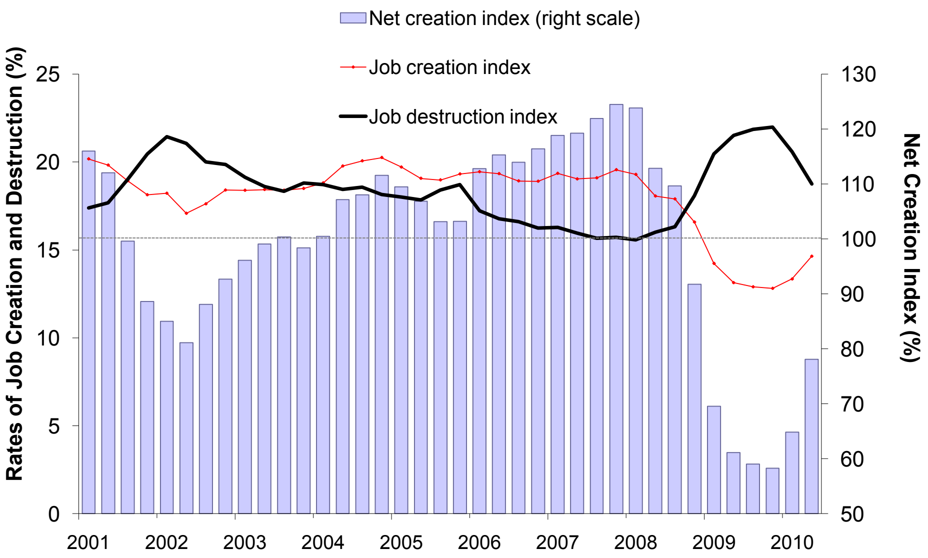
Source: NYS Department of Labor; DOB staff estimates.

In 2002, the second year of the 2001-03 State recession, manufacturing lost over 50,000 jobs, representing a decline of 7.2 percent. That was the greatest rate of decline since the beginning of 1975 when QCEW data started. However, there was a temporary improvement in net job creation beginning in 2003. Net job losses eased due to a decline in the gross rate of job destruction, while the gross rate of job creation remained flat (see Figure 54). In 2004, job creation began to rise and job destruction continued to fall, leading to a net index of job creation of almost 90 percent by the end of that year. The net index dropped back down to about 82 percent by the second quarter of 2007, consistent with the slowdown in manufacturing nationwide. Those losses accelerated starting in the third quarter of 2008 due to an increasing rate of job destruction and a falling job creation rate. Losses continued in 2009, resulting in a decline of 10.9 percent, the largest in the history of the series. With global demand increasing and both the national and State recessions over, the rate of manufacturing job losses is estimated to have decelerated to 3.7 percent for 2010, is expected to decelerate further to 0.8 percent for 2011.

Construction and Real Estate

Although the boom and bust cycle in the residential housing market was a bit less pronounced for New York than for the nation, its impact on the labor market still was severe. Moreover, the commercial real estate cycle is still playing out. As a result, the construction sector was the second hardest hit during this downturn after manufacturing. The Budget Division is projecting an increase in construction employment of 0.2 percent for 2011, following a 5.3 percent decrease in 2010. Employment in the real estate and rental and leasing sector is projected to increase 0.9 percent in 2011 after a decline of 1.0 percent in 2010, which compares to a national 2010 decline of 2.7 percent. Construction employment had been increasing steadily since the second quarter of 2004, producing strong net growth through the third quarter of 2008. However, significantly tighter credit conditions and the imploding national housing market slowed construction spending, with employment falling on a year-ago basis by 2008Q4.

Figure 55
Construction & Real Estate



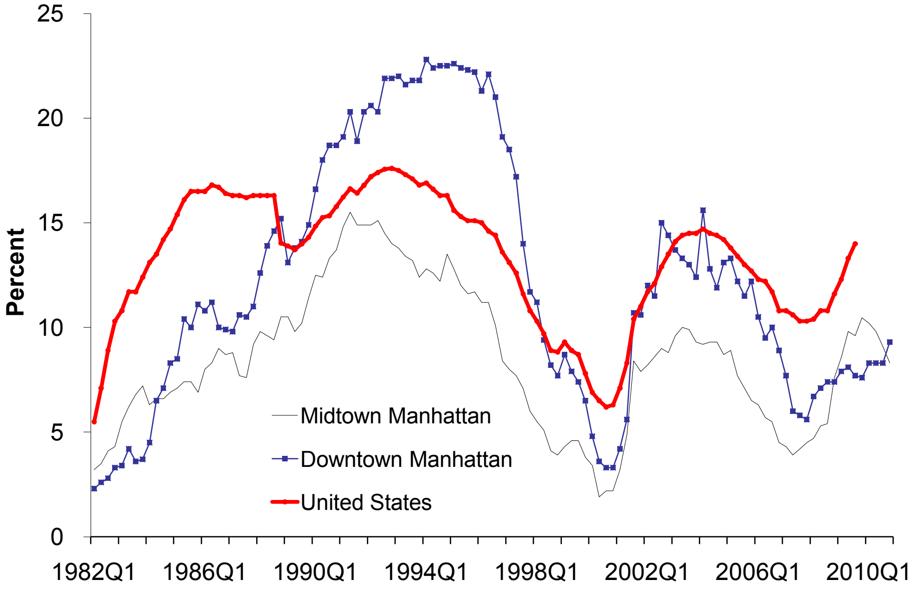
Source: NYS Department of Labor; DOB staff estimates.

Underlying labor market dynamics indicate that the construction and real estate sectors started to weaken in the second quarter of 2008 with a decline in the rate of job creation that continued right through 2009Q4 (see Figure 55). The rate of job destruction started to tick up in 2008Q2 and continued unabated until 2009Q4, but the rate fell in both of the first two quarters of 2010. Year-ago growth in State construction employment peaked in the first quarter of 2008, but that peak might have come earlier, as it did for the nation, had it not been for strong levels of activity in the commercial building sector in 2007, particularly downstate. However, the credit crisis started just as new office space was coming online, resulting in increased office vacancy rates. For example, office vacancy rates for both downtown and midtown Manhattan turned upward starting in the first quarter of 2008, though they were still well below that of the U.S. (see Figure 56). Manhattan office vacancy rates have since started to come down

The Budget Division outlook for modest growth in 2010 is supported by activity already in the pipeline, such as the ongoing reconstruction of the World Trade Center and a multi-year subway project. Projects financed by the American Recovery and Reconstruction Act may also help reduce net job losses. Finally, Figure 56 indicates that office vacancy rates may be leveling off. However, the overhang created by the high volume of activity that preceded the downturn remains a major source of risk to the recovery of the downstate real estate market. Indeed, the downtown Manhattan vacancy rate ticked up in the fourth quarter of 2010 with two large new properties coming onto the market.

Regional data indicate that the housing sector collapse has negatively impacted construction employment in all of the State's regions, with every region reporting lower employment in the first of half of 2010 compared to the same period in 2009. The steepest construction employment declines occurred in the Hudson Valley (9.4 percent), Long Island (6.8 percent), Capital District (4.8 percent), and New York City (4.8 percent).

Figure 56
Office Vacancy Rates



Source: Moody's Economy.com; CBRE.

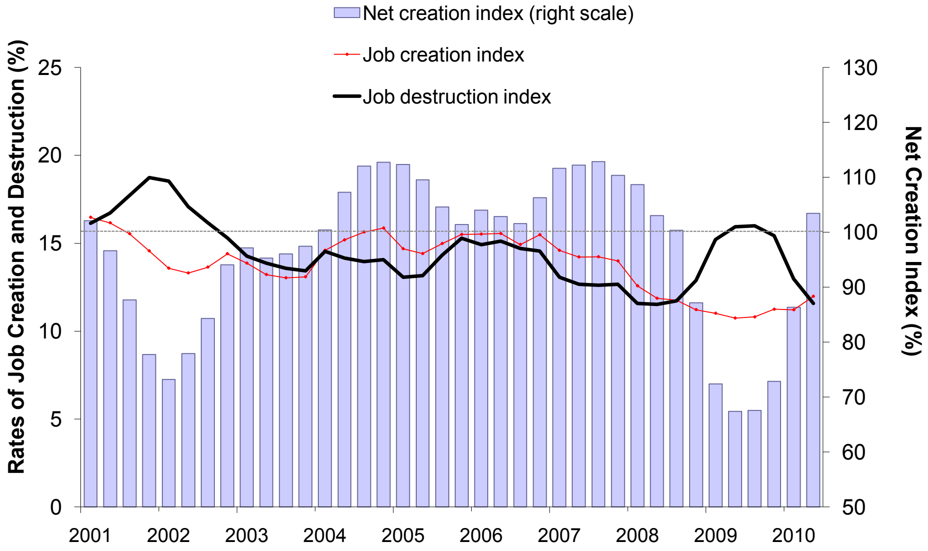
Trade, Transportation, and Warehousing

The Budget Division projects this sector will gain about 13,800 jobs in 2011, for a increase of 1.0 percent, after remaining virtually flat in 2010. The retail trade, wholesale trade, and transportation and warehousing sectors are among the more cyclically sensitive industrial sectors and have been hit hard by the current recession. Figure 57 shows these sectors beginning to see increases in the gross rate of job destruction in 2005, perhaps due to the start of the unwinding of the housing and auto market bubbles, but employment growth picked up toward the end of 2006 and through much of 2007. Despite this growth, employment in both the wholesale trade, and transportation and warehousing sectors never rose above their pre 2001-2003 recession peaks. The three sectors combined lost jobs for six consecutive quarters from the fourth quarter of 2008 through the first quarter of 2010. But the gross job destruction rate peaked in 2009Q3 and net job creation turned positive in the second quarter of 2010.

The aftermath of September 11 had a dramatic impact on the transportation and warehousing portion of this sector. The job gap reached its maximum during the first quarter of 2002, but had gradually narrowed with job growth most recently peaking at 2.1 percent in 2006. However, higher energy costs during much of 2008 and the deepening of the national recession significantly weakened job growth in these sectors.

For 2011, the Budget Division projects increases of 0.8 percent for wholesale trade, 1.0 percent for retail trade and 1.1 percent for transportation and warehousing. For wholesale trade and transportation and warehousing, these increases represent a substantial improvement from the declines experienced in 2010.

Figure 57
Trade, Transportation, and Warehousing

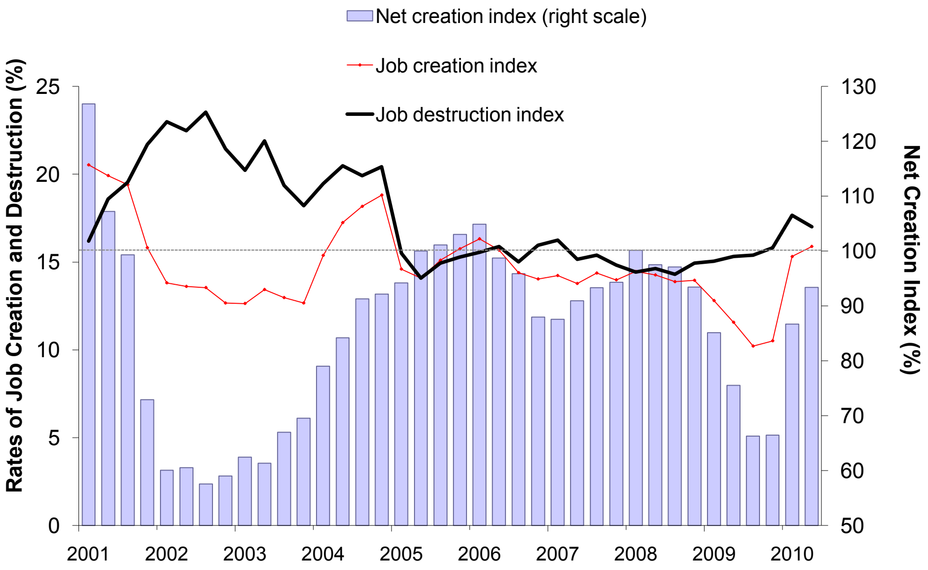


Source: NYS Department of Labor; DOB staff estimates.

Information (Media and Communications)

The information sector includes publishing, motion pictures, broadcasting, and telecommunications, and is estimated to have lost about 3,000 jobs in 2010, to be followed by a projected loss of about 600 jobs in 2011. These losses represent declines of 1.2 percent and 0.2 percent, respectively, a significant improvement.

Figure 58
Information



Source: NYS Department of Labor; DOB staff estimates.

This sector was among the hardest hit in the State during the 2001-2003 recession, in the wake of the collapse internet/hi-tech bubble, and never fully recovered (see Figure 58). This year will represent the 11th consecutive year of job losses, with the industry losing about 76,000 jobs since 2000. In addition, the information sector was once one of the most dynamic sectors in the State, exhibiting gross rates of job creation and destruction generally well above statewide averages, though this dynamism had waned with the contraction of the industry. The sector remains the most regionally concentrated, with almost 60 percent of State employment in this sector located in New York City, and recent anecdotal evidence suggests the possibility of a resurgence of the City as an east coast hub for the Internet publishing industry.

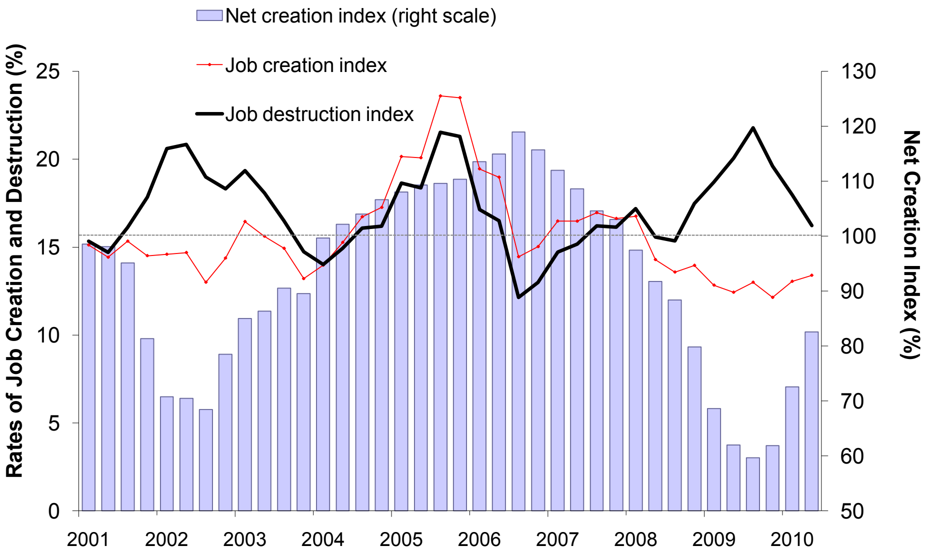
Finance and Insurance

The financial crisis that started in 2007 has resulted in large job losses in the finance and insurance sector. After losing 38,300 jobs in 2009, the largest annual job loss in the 35-year history of the QCEW data for this sector, the Budget Division estimates that the finance and insurance sector lost another 13,000 jobs in 2010 and is projected to lose an additional 1,700 jobs in 2011. These represent declines of 2.6 percent and 0.3 percent, respectively, and follow 2009's historic 7.2 percent decline. The sector's 2010 decline was the third largest, only behind construction and manufacturing. This is comparable to difficult financial periods in the past. The attacks of September 11, the 2001 national recession, and subsequent corporate governance scandals resulted in losses of 29,800 jobs in 2002 and 11,000 more in 2003. And as in the past, it could take many years before Wall Street recovers from one of the most cataclysmic periods in its history. After the stock market crash of 1987 and the national recession of 1990-91, it took ten years for the securities industry to recover its previous employment peak; this time it could take longer. The Budget Division does not project that the finance and insurance sector will reach its pre-recession 2007Q3 peak of 548,000 before the end of the forecast horizon in

2016Q4. As might be expected, most of the sector's losses have occurred in New York City, and that is expected to be the case in 2011 as well (see Figure 59).

Figure 59

Finance and Insurance



Source: NYS Department of Labor; DOB staff estimates.

Until recently, the finance and insurance sector had been a bright spot for the State's economy. The jobs lost during the 2001-2003 recession lowered industry compensation costs and helped Wall Street firms to increase profits significantly by 2003. After three years of job losses, strong revenue and profit performances resulted in the sector's net job creation index rising above 100 in 2004 and remaining there for four years through 2007. During these years, employees received record salaries and bonuses and State personal income tax revenues soared. In addition, both job creation and job destruction rates climbed to about 20 percent in 2005, proving this sector to be one of the State's most dynamic. Between the middle of 2005 and the end of 2007 the rates of job creation and destruction moved in parallel, with the latter remaining above the former, implying net job growth.

With the start of the credit crisis that began during the summer of 2007, the finance and insurance sector's rate of job creation began to fall, with the net creation index falling below 100 by the first quarter of 2008. The sector's rate of job destruction took a sharp upward turn in the fourth quarter of that year, coinciding with the shock to the global financial sector generated by the fall of Lehman Brothers. During this period, the sector was facing the most severe downturn since the Great Depression. As of the second quarter of 2010, the net job creation index was 83 percent, implying continuing year-over-year decline, but diminishing rates of job losses are consistent with reports that the sector began to recruit new employees last year. It remains to be seen what Wall Street staffing will ultimately look like under a new regulatory environment.

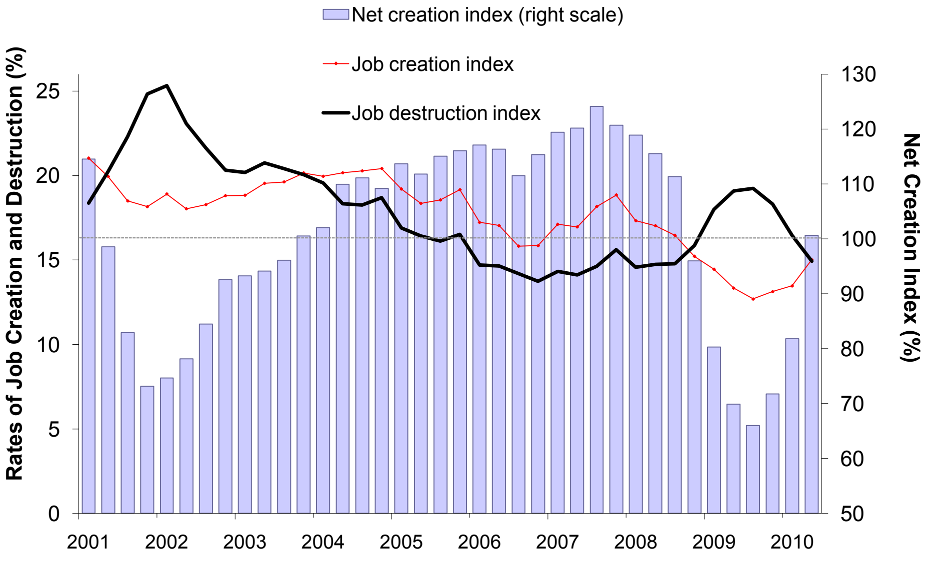
Professional and Business Services

The State's professional and business services sector includes two groups of industries. The first is the professional, scientific, and technical services sector (PST), which includes legal, accounting, architectural, engineering, advertising, and technical services. The second is the management, administrative, and other business support services. The recovery in national output and profits is projected to lead to a PST sector gain of 1.1 percent, or 6,100 jobs, in 2011, following a 1.4 percent loss of 8,100 jobs in 2010. This sector was one of the State's strongest from 2005 through the first half of 2008, benefiting greatly from the strength of the national economy (see Figure 60). The management, administrative, and support services sector is expected to follow a similar trend with a 2011 gain of 10,200 jobs, or 1.9 percent, following a 2010 gain of 7,000 jobs, or 1.3 percent. This sector includes temporary help services, which explains its earlier recovery.

With the collapse of the high-tech bubble, the State's professional, scientific, and technical services industries saw a significant increase in the rate of gross job destruction during 2001 and early 2002. However, the job gap in this sector narrowed substantially during the first three quarters of 2003, with the net index rising above 100 percent by the fourth quarter and net job growth continuing into 2008. Employment growth in this sector turned negative in the first quarter of 2009 primarily due to a rising job destruction rate.

Figure 60

Professional and Business Services



Source: NYS Department of Labor; DOB staff estimates.

The gross rate of job destruction rose swiftly in the management, administrative, and support services sector in 2001, but the job gap had narrowed significantly by the fourth quarter of 2002. The job gap continued to narrow in 2003 which resulted in positive net job creation in 2004 and 2005. Positive growth continued until the fourth quarter of 2008 when rapidly rising job destruction rates and falling job creation rates resulted in net employment declines which continued until the second quarter of 2010. This sector contains temporary help services, one of the first employment classes to grow following a downturn, which helps to explain the substantial improvement in this sector between 2003 and 2004. Many firms hire temporary workers coming out of a recession, uncertain as to whether an increase in the demand for their products will be sustained. This contributes to the high job turnover rate in this sector, as well as its cyclical sensitivity.

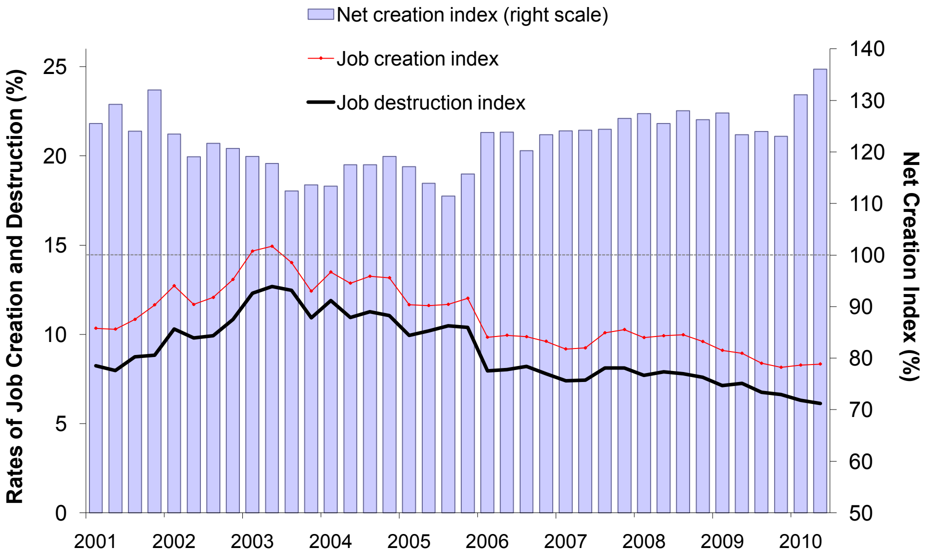
During the first half of 2010, most regions experienced net job losses in the professional and business sector compared to the first half of 2009. The regions hit hardest were the Capital District with a loss of 4.1 percent, Central New York with a loss of 2.7 percent, and Long Island with a loss of 2.0 percent. New York City, which saw a decline of 1.0 percent in the first half of 2010, still retains a disproportionately large share of the State's jobs in this sector, 50.7 percent. Though professional and business services was hit hard during the downturn, this sector is expected to once again become an area of labor market strength during the expansion.

Education and Health Care

The private education and healthcare and social assistance sectors have exhibited consistent strength and remain the brightest spots in the employment forecast (see Figure 61). Together, these two sectors are expected to add about 32,000 new jobs in both 2010 and 2011 for growth just above 2 percent in both years.

Figure 61

Education, Health Care, and Social Assistance



Source: NYS Department of Labor; DOB staff estimates.

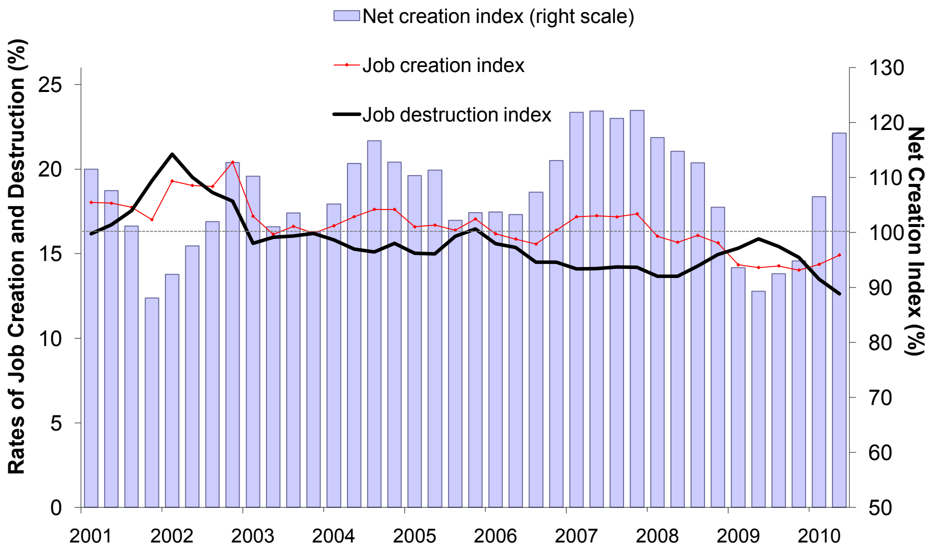
The health care industry is the larger of the two, employing an estimated total of almost 1.3 million workers in 2010. The private education sector is estimated to employ only about 297,000, as it excludes more than 600,000 workers employed at public educational institutions. Neither of these sectors exhibits a significant degree of cyclical sensitivity, and both are expected to exhibit growth in 2011. Moreover, the demand for jobs within the health care and social assistance sector is expected strengthen further with the aging of the State's population. Private education employment is projected to rise 2.0 percent for 2011, following estimated growth of 1.9 percent for 2010. Healthcare and social assistance employment is also projected to rise 2.0 percent in 2011, following estimated growth of 2.1 percent for 2010.

Leisure, Hospitality, and Other Services

The Budget Division expects leisure, hospitality, and other services employment to increase by 2.1 percent in 2011, following an increase of 1.8 percent in 2010. The national and global recessions have had a severe impact on this sector, particularly the arts, entertainment, and other tourism-related industries, not unlike the impact of the September 11 attacks (see Figure 62). In the wake of that cataclysmic event, the gross rate of job destruction increased considerably during the fourth quarter of 2001 and the first quarter of 2002, although the sector began to bounce back soon thereafter.

Figure 62

Leisure, Hospitality, and Other Services



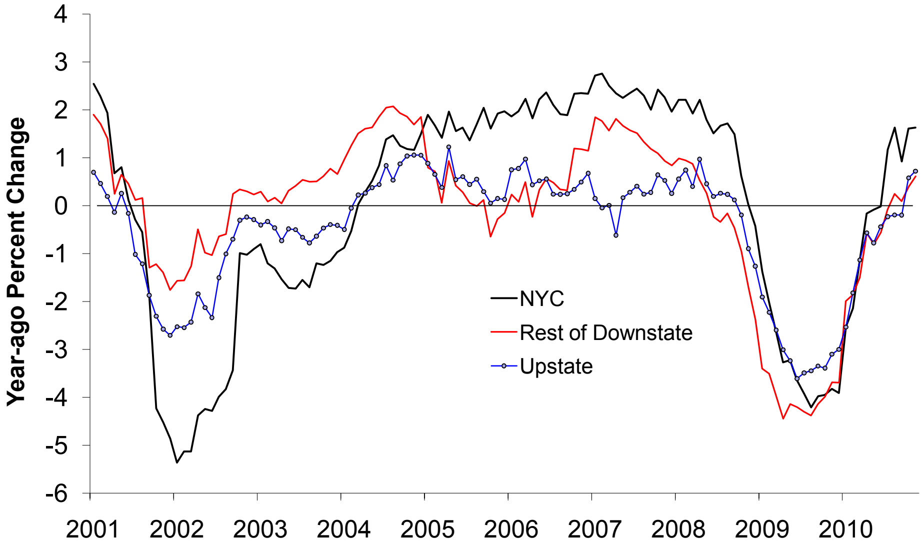
Source: NYS Department of Labor; DOB staff estimates.

The net job creation index has been quite volatile in this sector since the 2001-2003 recession, but remained above 100 percent until early 2009. The net index started falling in the first quarter of 2008 and was below 100 by the first quarter of 2009. The sector's rate of job destruction peaked early, in the second quarter of 2009, and the sector has been improving since, experiencing net growth by the first quarter of 2010. This sector is estimated to have added almost 19,000 jobs in 2010 and is expected to add another 22,000 in 2011, with the strengthening of the national and global economies and a weakened U.S. dollar favoring tourism.

Regional Job Growth Disparity

Figure 63 indicates that since the start of the last State recovery in late 2003, employment growth has been quite variable across the State's regions. The State's private sector added 338,400 jobs between October 2003 and October 2008, a 4.8 percent increase. Fully 74.7 percent of these jobs were added in New York City, which saw a private sector increase of 252,700, or 8.4 percent. This strong growth is no surprise given the robust performance of the City's services industries for which the market is not just national but global. Employment growth in the downstate region excluding New York City was weaker, at 2.6 percent, or an addition of 38,500 jobs. However, growth in the upstate region was weaker still, with the private sector adding only about 47,200 jobs during the period, for growth of 1.9 percent.

Figure 63
NYS Private Sector Employment by Region

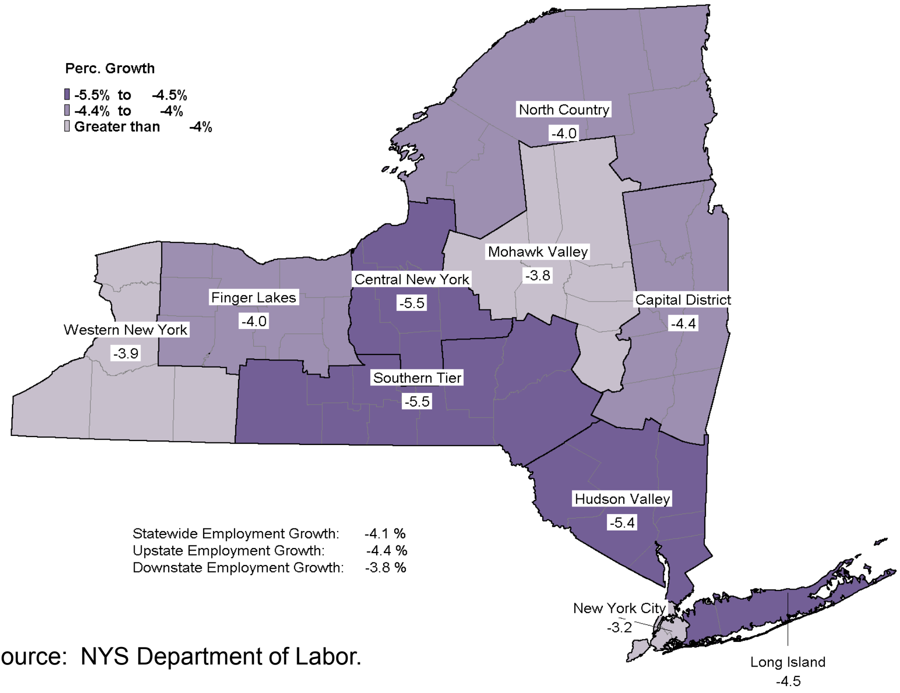


Note: Upstate is defined as the State total minus the ten downstate counties.
Source: NYS Department of Labor (CES).

By the middle of 2008, the national recession and the housing market contraction began to hit New York. As shown in Figure 63, the downstate region outside of New York City was the first to be affected. But the New York City labor market took a big hit when the credit crisis intensified with the fall of Lehman Brothers in September 2008. Most of the job losses in the financial and business services sectors are in the City. In addition, the synchronized global economic recession put significant downward pressure on the City's tourism-related establishments, including airlines, hotels, and restaurants, resulting in severe job losses. For the upstate economy, the continued relative dependence on manufacturing, in particular the auto, machinery and equipment industries, the weakening demand for cars and light trucks, and investment goods more generally, resulted in extensive layoffs, especially in the western part of the State. But as Figure 63 also shows, job losses turned to growth in 2010, starting in New York City and spreading to the remainder of the State later in the year, consistent with the beginning of a recovery in January 2010.

Figure 64 compares the relative performance of New York's 10 regions between the first half of 2008, a peak period for State employment, and the first half of 2010, the most recent period for which the most accurate data – Quarterly Census of Employment and Wages (QCEW) data – are available. These data indicate that job declines over the period, which roughly covers the first year of the State recession, were extremely broad-based. Private sector employment for the State as a whole fell 4.1 percent over the period; the downstate regions fell 3.8 percent; while the upstate region fell 4.4 percent. With almost every industry bleeding jobs except for education and health care, no region has been left unscathed. A more detailed analysis of regional employment trends can be found in Table 12 through Table 15 on pages 143-144.

Figure 64
Regional Employment Declines: 2008H1-2010H2



Source: NYS Department of Labor.

Risks to the New York Forecast

The Budget Division's outlook calls for the State's economic recovery to proceed at a moderate pace through 2011. However, there are many risks to this forecast. All of the risks to the U.S. forecast apply to the State forecast as well, although as the nation's financial capital, developments that have an impact on credit markets, such as the euro-debt crisis, pose a particularly large degree of risk for New York. A large equity market correction could be quite destabilizing to the financial sector and ultimately bonuses and State wages overall. These risks are compounded by the uncertainty surrounding the implementation of financial reform, which is already altering the composition of bonus packages in favor of stock grants with long-term payouts and claw-back provisions, thus affecting the forecast for taxable wages. In addition, it is also uncertain whether finance sector revenue generating activity such as trading, lending, and underwriting will ever return to pre-crisis levels, resulting in additional risk to the forecasts for bonuses and personal capital gains.

There are, however, some upside risks as well. A stronger national or global economy than projected could increase the demand for New York goods and services, resulting in stronger job growth than projected. Such an outcome could lead to stronger levels of business activity and income growth than anticipated. It could also result in a stronger and earlier upturn in stock prices, stimulating additional financial market activity, and producing higher wage and bonus growth than currently projected. Of course, a stronger national economy could force the Federal Reserve to raises interest rates earlier or more rapidly than projected, which could negatively affect the State economy and the financial sector in particular.

BOX 11
THE NEW YORK STATE DIVISION OF THE BUDGET NEW YORK MACROECONOMIC MODEL

DOB's New York Macroeconomic model (DOB/N.Y.) attempts to capture the fundamental linkages between the New York and the national economies.[1] Clearly, New York's economy depends on economic developments in the U.S. economy, usually expanding when the national economy is growing and contracting when the nation is in recession. However, this relationship is neither simple nor static. The growth rate of the State's economy can vary substantially in comparison to the nation. For example, during the 1990-91 national recession, the State's recession began noticeably earlier and ended significantly later than for the nation as a whole. Alternatively, during the early 1980s recession, the State's economy fared better than the nation.

The objective of DOB/N.Y. is to quantify the linkages between the national and State economies within an econometric modeling framework. DOB/N.Y. is a structural time series model with most of the exogenous variables derived from DOB/U.S. In general, the long-run equilibrium relationships between State and national economic variables are captured by a cointegration/error-correction specification, while the State's specific dynamics are modeled using a restricted vector autoregressive (RVAR) framework. DOB/N.Y. has four major components: a nonfarm payroll employment segment, a real nonbonus average wage segment, a bonus payment segment, and a nonwage income segment.

Employment

The national economy affects New York employment through two channels. First, if State employment growth for a specific sector is related to the growth of the U.S. employment in the same sector, U.S. employment for that sector is specified as an exogenous variable in the equation. Second, overall U.S. economic conditions, as measured by the growth of real U.S. GDP, is included either directly in the employment equations for some sectors or indirectly through the VAR relationships.

Intra-sectoral relationships for New York employment can be different from those for the nation as a whole. These relationships are captured in a restricted VAR model where the impact of one sector on other sectors is explicitly specified.

Average Real Nonbonus Wages

Our analysis suggests the existence of a long-run equilibrium relationship between real nonbonus average wage for most New York sectors and the national real average wage. Thus, the State average real nonbonus wage by sector is modeled in a cointegration/error-correction framework. This modeling approach is based on the belief that, since both labor and capital are free to move in a market economy, regional differences in labor costs tend to converge toward their long-run equilibrium values, though this process may take quite a long time. This formulation allows for short-run adjustments towards equilibrium, which describe the short-run dynamics of State-specific economic conditions.

Bonus Income

The DOB model for finance and insurance bonus income incorporates those factors that drive Wall Street profits: merger and acquisition activity, IPOs, and the volume of debt underwriting. Our analysis shows that bonuses paid in the State's other economic sectors tend to have long-term equilibrium relationships with those paid in the finance and insurance sectors; more technically, bonus payments in the financial services sector are cointegrated with bonuses paid in most other sectors. Consequently, the results from the finance and insurance sector bonus model are used to estimate bonuses paid in other sectors.

Nonwage Incomes and Other Variables

The New York nonwage components, except for the residence adjustment, are all driven by their national counterparts. The relationship is modeled as a change in the New York variable, as a function of a change in the U.S. nonwage counterpart, along with lags of the independent and dependent variables as appropriate to account for short-term fluctuations.

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[1] For more information, see *New York State Economic, Revenue and Spending Methodologies*, November 5, 2010,<http://www.budget.state.ny.us/pubs/supporting/MethodologyBook.pdf>.

TABLE 12

NEW YORK STATE PRIVATE EMPLOYMENT BY INDUSTRY

	Employment in Thousands					Percent Change				
INDUSTRY	**2006**	**2007**	**2008**	**2009**	**2010***	**2006**	**2007**	**2008**	**2009**	**2010***
Mining and Manufacturing	570.3	557.4	537.4	479.0	458.0	(2.3)	(2.3)	(3.6)	(10.9)	(6.1)
Construction and Real Estate	519.3	537.0	544.7	501.7	467.8	2.5	3.4	1.4	(7.9)	(5.5)
Trade, Trans., and Warehousing	1,455.5	1,477.5	1,476.3	1,408.6	1,393.0	0.5	1.5	(0.1)	(4.6)	(0.7)
Information	266.7	263.2	262.1	251.5	249.5	(0.5)	(1.3)	(0.4)	(4.0)	(1.7)
Finance and Insurance	538.2	544.1	534.6	496.3	483.0	2.3	1.1	(1.7)	(7.2)	(3.8)
Business and Professional Svs.	1,101.3	1,136.0	1,153.3	1,094.2	1,080.1	2.2	3.2	1.5	(5.1)	(1.4)
Education and Health Care	1,463.1	1,491.6	1,522.9	1,549.0	1,579.6	1.8	1.9	2.1	1.7	2.1
Leisure, Hospitality, and Other Svs	991.7	1,022.7	1,040.3	1,028.4	1,024.8	1.0	3.1	1.7	(1.1)	1.6
Other **	104.7	89.0	79.4	84.2	82.3	6.8	(15.0)	(10.9)	6.1	3.6
Statewide	7,010.8	7,118.4	7,150.9	6,892.9	6,817.9	1.2	1.5	0.5	(3.6)	(0.8)

* Levels for 2010 are based on the first two quarters of the year; 2010 growth rates are relative to the same period in 2009.

** Includes agriculture, utilities, and unclassified firms.

TABLE 13

NEW YORK STATE PRIVATE EMPLOYMENT BY REGION

	Employment in Thousands					Percent Change				
REGION	**2006**	**2007**	**2008**	**2009**	**2010***	**2006**	**2007**	**2008**	**2009**	**2010***
New York City	3,010.6	3,092.6	3,123.1	3,015.9	3,013.5	2.1	2.7	1.0	(3.4)	(0.3)
Long Island	1,026.6	1,038.4	1,033.6	991.9	980.8	1.2	1.1	(0.5)	(4.0)	(0.6)
Hudson Valley	726.7	736.3	730.6	699.6	687.5	0.7	1.3	(0.8)	(4.2)	(1.1)
Capital District	387.6	388.5	389.5	378.1	369.4	0.6	0.2	0.3	(2.9)	(1.7)
Mohawk Valley	132.4	132.6	131.4	127.7	124.8	0.3	0.2	(0.9)	(2.8)	(1.2)
North Country	108.3	108.9	108.5	104.7	102.0	1.5	0.5	(0.4)	(3.5)	(0.9)
Central New York	283.7	287.1	286.5	275.2	268.9	(0.3)	1.2	(0.2)	(3.9)	(1.9)
Southern Tier	236.9	239.1	238.8	228.4	224.5	1.1	0.9	(0.1)	(4.4)	(1.3)
Western New York	512.8	514.2	516.6	498.6	491.3	(0.1)	0.3	0.5	(3.5)	(0.7)
Finger Lakes	456.3	458.4	458.2	442.6	436.1	(0.2)	0.5	(0.0)	(3.4)	(0.8)
Unclassified	128.9	122.4	134.0	130.1	119.2	0.6	(5.0)	9.5	(2.9)	(6.5)

* Levels for 2010 are based on the first two quarters of the year; 2010 growth rates are relative to the same period in 2009.

TABLE 14

REGIONAL EMPLOYMENT SHARES BY INDUSTRY

REGION	**Mining/ Manuf.**	**Constr. & Real Estate**	**Trade, Trans. & Wareh.**	**Info.**	**Finance and Insurance**	**Bus. & Prof. Svs.**	**Educ. & Health Care**	**Leisure, Hosp. & Other Svs.**	**Other**
New York City	2.6	7.6	17.3	4.9	10.1	18.1	23.5	15.0	0.9
Long Island	7.4	7.7	24.6	2.5	5.2	14.8	21.9	14.8	1.1
Mid Hudson	7.2	7.9	23.3	2.7	4.3	13.1	24.3	15.6	1.6
Capital Region	7.7	6.6	21.9	2.7	5.7	14.7	23.1	16.3	1.2
Mohawk Valley	13.2	4.6	24.9	2.3	5.5	7.8	26.4	14.3	1.0
North Country	11.1	7.2	26.4	1.8	2.4	6.8	23.9	17.7	2.7
Central New York	11.9	6.2	23.5	1.9	5.0	12.8	20.7	15.8	2.2
Southern Tier	16.9	5.0	19.9	1.8	3.8	9.3	26.8	14.9	1.5
Western New York	13.2	5.6	21.8	1.8	5.2	14.7	20.1	16.7	1.0
Finger Lakes	15.5	5.7	19.9	2.2	3.3	13.6	23.4	14.5	1.9
Statewide	6.8	7.1	20.4	3.6	7.1	15.8	22.8	15.1	1.2

Note: Shares are based on the period from 2009Q3 through 2010Q2.

TABLE 15

REGIONAL EMPLOYMENT TRENDS: 2005-2010

Region	Employment (000's)					Percent Change				
	2006	2007	2008	2009	2010*	2006	2007	2008	2009	2010*
	Manufacturing and Mining									
New York City	105.4	100.8	95.3	81.6	76.0	(7.1)	(4.4)	(5.4)	(14.4)	(8.7)
Long Island	85.1	83.4	80.8	74.4	72.6	(1.4)	(1.9)	(3.1)	(8.0)	(4.1)
Hudson Valley	60.6	59.6	57.2	51.8	49.9	(1.7)	(1.6)	(3.9)	(9.5)	(5.6)
Capital District	33.1	32.7	32.3	29.4	28.7	(0.7)	(1.1)	(1.4)	(8.9)	(3.6)
Mohawk Valley	20.2	19.5	18.8	17.0	16.6	(2.3)	(3.9)	(3.2)	(9.5)	(4.0)
North Country	14.6	14.2	13.7	11.9	11.4	(0.1)	(2.9)	(3.8)	(12.5)	(5.5)
Central New York	38.7	38.7	37.7	33.5	32.1	(1.1)	(0.1)	(2.5)	(11.1)	(6.2)
Southern Tier	45.2	45.8	45.1	40.0	37.7	2.5	1.4	(1.5)	(11.3)	(7.9)
Western New York	81.1	79.3	76.6	67.3	65.0	(2.1)	(2.2)	(3.4)	(12.1)	(5.1)
Finger Lakes	85.1	82.0	78.1	70.4	67.2	(1.6)	(3.6)	(4.8)	(9.9)	(6.3)
Unclassified	1.2	1.4	1.6	1.4	0.9	5.1	18.1	15.4	(9.6)	(41.1)
Statewide	570.3	557.4	537.4	479.0	458.0	(2.3)	(2.3)	(3.6)	(10.9)	(6.1)
	Construction and Real Estate									
New York City	231.0	243.2	248.2	233.1	223.0	2.4	5.3	2.1	(6.1)	(4.8)
Long Island	85.2	87.3	87.8	79.0	73.0	3.9	2.4	0.5	(10.0)	(6.8)
Hudson Valley	65.4	67.9	66.2	57.7	51.8	2.9	3.8	(2.6)	(12.8)	(9.4)
Capital District	27.0	27.2	27.1	25.2	23.1	1.6	0.7	(0.3)	(7.0)	(4.8)
Mohawk Valley	6.4	6.7	6.4	6.0	5.2	0.0	3.6	(3.4)	(7.3)	(4.0)
North Country	7.5	7.8	8.1	7.6	6.7	6.9	4.6	3.4	(5.7)	(4.2)
Central New York	18.2	18.5	18.7	17.3	15.9	3.4	1.7	0.7	(7.3)	(3.3)
Southern Tier	11.7	11.8	12.0	11.3	10.4	1.9	0.9	1.4	(5.6)	(1.1)
Western New York	29.9	29.4	29.9	28.3	25.8	1.1	(1.7)	1.9	(5.6)	(4.4)
Finger Lakes	26.0	26.7	27.3	25.4	23.6	(2.5)	2.8	2.0	(6.7)	(2.3)
Unclassified	10.9	10.4	13.0	10.9	9.2	6.5	(4.4)	25.0	(16.4)	(11.7)
Statewide	519.3	537.0	544.7	501.7	467.8	2.5	3.4	1.4	(7.9)	(5.5)
	Trade, Transportation, and Warehousing									
New York City	524.1	539.7	542.0	519.3	521.2	1.9	3.0	0.4	(4.2)	0.9
Long Island	256.3	260.7	259.7	244.6	241.4	(0.3)	1.7	(0.4)	(5.8)	(1.2)
Hudson Valley	171.8	173.3	171.8	163.2	160.0	0.3	0.9	(0.9)	(5.0)	(1.6)
Capital District	88.7	87.5	86.0	82.9	81.1	(0.3)	(1.4)	(1.7)	(3.5)	(1.7)
Mohawk Valley	32.7	33.1	33.2	32.1	31.0	1.2	1.3	0.3	(3.4)	(2.8)
North Country	28.1	28.5	28.6	27.9	27.2	1.6	1.6	0.1	(2.6)	(2.1)
Central New York	67.4	67.7	67.7	64.8	63.0	(1.4)	0.4	0.0	(4.2)	(2.5)
Southern Tier	47.7	48.0	47.6	45.4	44.7	(0.3)	0.7	(0.9)	(4.6)	(0.9)
Western New York	113.4	114.8	114.5	108.9	106.9	(0.7)	1.3	(0.3)	(4.9)	(1.0)
Finger Lakes	90.6	92.0	91.4	87.7	87.2	(0.6)	1.5	(0.6)	(4.0)	0.1
Unclassified	34.9	32.2	33.8	31.8	29.3	0.7	(7.7)	5.3	(6.0)	(8.3)
Statewide	1,455.5	1,477.5	1,476.3	1,408.6	1,393.0	0.5	1.5	(0.1)	(4.6)	(0.7)
	Information									
New York City	152.9	155.5	156.8	148.4	148.6	1.3	1.7	0.8	(5.4)	(1.0)
Long Island	28.4	26.9	25.6	26.2	24.2	1.6	(5.4)	(4.6)	2.0	(8.4)
Hudson Valley	22.0	21.4	21.0	19.0	18.5	(3.0)	(3.0)	(1.9)	(9.6)	(3.7)
Capital District	11.8	11.1	10.7	10.5	9.9	(2.8)	(5.6)	(3.5)	(2.3)	(6.8)
Mohawk Valley	3.9	3.5	3.2	3.0	2.9	(9.9)	(10.1)	(8.6)	(4.8)	(6.2)
North Country	2.1	2.1	2.0	1.9	1.9	5.8	0.0	(3.2)	(3.6)	(4.1)
Central New York	6.2	6.1	5.9	5.3	5.2	(6.3)	(2.7)	(3.3)	(8.8)	(5.8)
Southern Tier	4.7	4.6	4.4	4.1	4.0	(1.8)	(3.5)	(3.5)	(6.9)	(4.9)
Western New York	10.0	9.4	9.3	8.9	8.6	(4.2)	(6.5)	(1.1)	(3.4)	(5.3)
Finger Lakes	11.3	10.7	10.5	9.9	9.5	(4.2)	(5.2)	(2.1)	(5.0)	(6.2)
Unclassified	13.4	12.1	12.7	14.3	16.3	(6.7)	(9.3)	5.1	11.9	20.2
Statewide	266.7	263.2	262.1	251.5	249.5	(0.5)	(1.3)	(0.4)	(4.0)	(1.7)

(Cont'd on next page)

REGIONAL EMPLOYMENT TRENDS: 2005-2010 (*cont'd*)

Region	Employment (000's)					Percent Change				
	2006	2007	2008	2009	2010*	2006	2007	2008	2009	2010*
	Finance and Insurance									
New York City	331.7	341.5	337.8	310.3	300.9	3.1	3.0	(1.1)	(8.1)	(4.4)
Long Island	59.8	59.6	56.6	52.1	51.8	(3.5)	(0.4)	(5.1)	(7.9)	(1.4)
Hudson Valley	34.8	34.2	32.5	30.4	29.7	2.0	(1.6)	(5.1)	(6.4)	(3.3)
Capital District	22.7	22.3	22.1	21.6	21.3	2.3	(1.8)	(0.9)	(2.3)	(2.2)
Mohawk Valley	8.2	8.2	7.6	7.2	7.0	2.2	(0.1)	(7.4)	(5.5)	(4.0)
North Country	2.9	2.6	2.6	2.5	2.5	3.9	(8.3)	(2.9)	(2.3)	(1.5)
Central New York	14.4	14.6	14.6	13.9	13.5	2.8	1.7	(0.2)	(5.1)	(4.2)
Southern Tier	9.5	9.3	9.2	8.8	8.7	(0.5)	(2.0)	(1.3)	(3.5)	(3.0)
Western New York	29.3	28.0	27.7	26.4	25.5	2.2	(4.4)	(1.4)	(4.7)	(3.6)
Finger Lakes	15.8	15.7	15.3	14.7	14.6	3.0	(0.6)	(2.6)	(3.9)	(0.5)
Unclassified	9.2	7.9	8.8	8.4	7.6	19.9	(13.6)	10.6	(4.0)	(9.0)
Statewide	538.2	544.1	534.6	496.3	483.0	2.3	1.1	(1.7)	(7.2)	(3.8)
	Business and Professional Services									
New York City	548.6	571.4	581.2	549.4	547.5	2.9	4.2	1.7	(5.5)	(1.0)
Long Island	156.6	158.3	156.7	147.6	144.0	2.5	1.1	(1.0)	(5.8)	(2.0)
Hudson Valley	94.8	96.6	96.1	91.4	90.5	0.4	1.9	(0.5)	(4.9)	(0.7)
Capital District	57.2	58.3	59.7	56.4	54.3	3.1	1.9	2.4	(5.6)	(4.1)
Mohawk Valley	10.7	10.6	10.6	10.0	9.8	1.4	(0.9)	0.0	(6.1)	(1.6)
North Country	7.5	7.8	7.8	7.1	7.0	6.7	4.5	(0.0)	(9.6)	(0.4)
Central New York	36.0	37.0	36.8	35.5	34.3	0.4	2.7	(0.7)	(3.5)	(2.7)
Southern Tier	22.6	23.2	23.0	21.1	21.4	4.2	2.4	(0.5)	(8.5)	0.9
Western New York	70.0	71.6	74.2	72.6	72.9	2.9	2.3	3.6	(2.1)	1.5
Finger Lakes	60.9	62.1	63.2	60.1	59.7	1.4	2.0	1.8	(5.0)	(0.5)
Unclassified	36.3	39.0	43.9	43.1	38.7	(6.6)	7.3	12.6	(1.7)	(9.0)
Statewide	1,101.3	1,136.0	1,153.3	1,094.2	1,080.1	2.2	3.2	1.5	(5.1)	(1.4)
	Education, Health Care, and Social Assistance									
New York City	664.4	675.9	688.6	701.5	715.9	2.3	1.7	1.9	1.9	2.0
Long Island	197.5	203.5	208.6	212.2	220.6	3.1	3.0	2.5	1.7	4.4
Hudson Valley	157.2	161.6	164.8	167.3	170.3	1.6	2.8	2.0	1.5	2.2
Capital District	81.5	83.5	85.2	86.2	87.4	0.1	2.4	2.1	1.2	1.3
Mohawk Valley	30.7	31.8	32.3	33.3	33.4	2.3	3.7	1.7	2.9	1.6
North Country	24.4	24.2	24.2	24.5	25.0	0.1	(1.0)	0.0	1.4	3.1
Central New York	54.3	55.6	56.0	56.2	56.5	1.0	2.3	0.9	0.3	0.6
Southern Tier	58.4	59.0	60.3	60.4	61.2	0.6	1.1	2.2	0.3	1.3
Western New York	94.4	95.1	97.0	99.0	100.3	(0.5)	0.7	2.0	2.2	1.5
Finger Lakes	95.4	97.2	100.7	102.4	103.9	1.1	1.9	3.5	1.7	1.5
Unclassified	4.9	4.4	5.3	5.9	5.1	12.7	(10.2)	20.0	12.6	(10.0)
Statewide	1,463.1	1,491.6	1,522.9	1,549.0	1,579.6	1.8	1.9	2.1	1.7	2.1
	Leisure, Hospitality, and Other Services									
New York City	416.0	435.2	448.3	445.0	452.1	2.2	4.6	3.0	(0.7)	2.6
Long Island	143.3	146.7	147.6	145.0	142.5	1.2	2.4	0.6	(1.8)	1.5
Hudson Valley	106.6	109.7	110.2	107.7	106.0	(0.1)	2.9	0.5	(2.3)	1.1
Capital District	60.5	61.3	62.0	61.4	59.3	0.7	1.3	1.1	(0.9)	(0.5)
Mohawk Valley	18.2	18.1	18.1	18.0	17.8	(1.0)	(0.6)	(0.2)	(0.6)	2.5
North Country	18.6	19.0	18.9	18.5	17.7	(0.2)	1.9	(0.1)	(2.5)	(0.5)
Central New York	42.2	43.0	43.5	42.9	42.7	(1.2)	2.1	1.2	(1.4)	1.0
Southern Tier	33.4	33.9	33.8	33.7	33.1	0.6	1.7	(0.3)	(0.3)	1.1
Western New York	78.8	81.1	82.4	82.2	81.6	(0.0)	2.9	1.6	(0.2)	1.5
Finger Lakes	62.3	63.5	63.5	63.4	62.9	(0.3)	1.9	(0.0)	(0.2)	1.5
Unclassified	11.9	11.1	12.0	10.8	9.2	(0.5)	(6.5)	7.4	(10.2)	(11.5)
Statewide	991.7	1,022.7	1,040.3	1,028.4	1,024.8	1.0	3.1	1.7	(1.1)	1.6

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* Levels for 2010 are based on the first two quarters of the year; 2010 growth rates are relative to the same period in 2009.

Source: NYS Department of Labor.

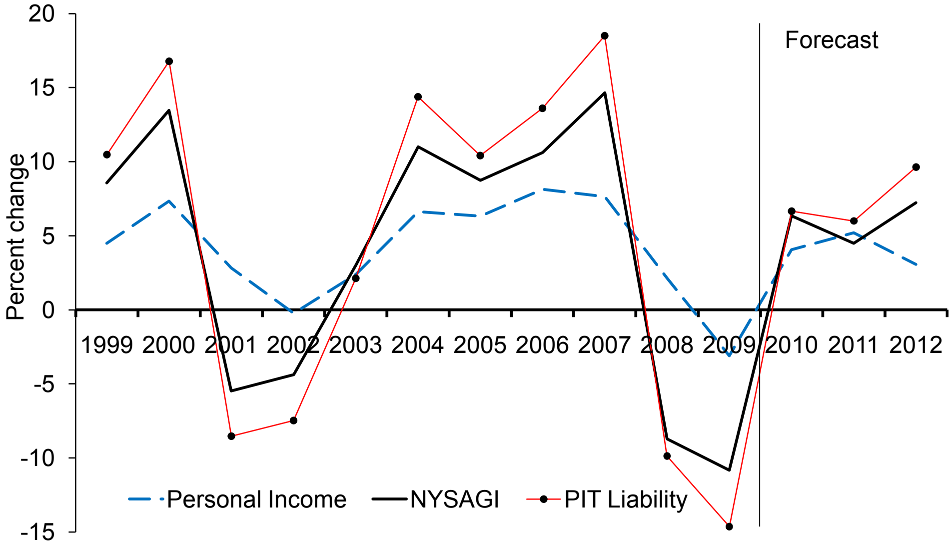
NEW YORK STATE ADJUSTED GROSS INCOME

Receipts from the personal income tax account for almost 60 percent of the State's total tax revenue stream. New York State adjusted gross income (NYSAGI) is the measure of taxable income from which taxpayers' personal income tax liability is computed in conformity with New York State tax laws.[22] Detailed knowledge of the composition of this personal income tax base and its determinants is critical to accurately projecting New York's largest revenue source. At the aggregate level, the components of NYSAGI such as dividend income or capital gains income vary with State and Federal economic indicators. The Budget Division's forecast of the components of personal income forecast will thus depend on the linkages between NYSAGI and the outlook for both the national and State economies.

NYSAGI has been severely affected by the U.S. and New York recessions, falling 8.7 percent in 2008 and a projected 10.8 percent most recently in 2009 (see Figure 65). These declines are the steepest since the data became available in 1980, consistent with national and State recessions that were both more severe and longer than any during the same time frame. A slow but sustained recovery at the State and national levels, and robust equity market growth are expected to combine to grow State taxable income by 5.1 percent for 2010, followed by growth of 4.5 percent for 2011 and 7.0 percent for 2012 (see Table 16).

Figure 65

Indicators of New York State's Tax Base



Note: Personal income tax (PIT) liability is computed based on 2002 NY State tax law; 2009 liability and NYSAGI data are preliminary.
Source: NYS Department of Taxation and Finance; Moody's Economy.com; DOB staff estimates.

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[22] Box 12 on page 12 discusses in detail the relationship between three important indicators of the size of the State's personal income tax base, personal income tax liability, NYSAGI, and state personal income.

The Major Components of NYSAGI

Budget Division forecasts for the components of NYSAGI are based on detailed historical tax return data from samples of State taxpayers through the 2008 tax year, made available by the New York State Department of Taxation and Finance. For 2009, preliminary processing data based on the entire population of tax returns are used to construct estimates for all of the income components.

Although the measure of taxable wages derived from State tax returns does not precisely match the dollar amount derived from Quarterly Census Employment and Wages (QCEW) data, they tend to follow a similar trend. Therefore, projected growth rates for taxable wages from 2010 onward are based on the forecast of growth for total State wages derived from the Budget Division New York macroeconomic forecast, which is based on QCEW data.[23]

TABLE 16
CHANGES IN NYSAGI AND ITS MAJOR COMPONENTS

	2005	2006	2007	2008	2009*	2010	2011	2012
	Actual				Estimated			
NYSAGI								
Level ($ Billions)	571.9	632.6	725.2	662.1	590.3	620.3	648.0	693.0
Change ($ Billions)	46.0	60.7	92.6	(63.2)	(71.7)	30.0	27.6	45.1
% Change	8.7	10.6	14.6	(8.7)	(10.8)	5.1	4.5	7.0
Wages								
Level ($ Billions)	417.0	445.2	485.6	492.9	462.8	481.5	496.9	522.7
Change ($ Billions)	19.6	28.2	40.4	7.3	(30.1)	18.7	15.4	25.8
% Change	4.9	6.8	9.1	1.5	(6.1)	4.0	3.2	5.2
Capital Gains								
Level ($ Billions)	66.7	84.4	118.3	57.0	32.4	39.0	43.1	55.1
Change ($ Billions)	12.9	17.8	33.9	(61.3)	(24.6)	6.6	4.1	12.1
% Change	24.0	26.6	40.1	(51.8)	(43.1)	20.2	10.4	28.1
Partnership/S Corporation								
Level ($ Billions)	53.8	61.2	70.7	75.8	67.3	71.4	78.5	86.8
Change ($ Billions)	7.9	7.4	9.5	5.1	(8.5)	4.1	7.2	8.2
% Change	17.3	13.8	15.5	7.2	(11.2)	6.2	10.0	10.5

Source: NYS Department of Taxation and Finance; DOB staff estimates.
* 2009 Estimates are based on processing data except for wages.

Positive Capital Gains Realizations

The fate of NYSAGI is closely linked to the fate of capital gains realizations, both because of the relatively large share of income from positive capital gains realizations

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[23] For a discussion of the Budget Division forecast for State wages, see *New York State Economic, Revenue, and Spending Methodologies*, November 5, 2010, pp. 53-56, <http://www.budget.state.ny.us/pubs/supporting/MethodologyBook.pdf>

and because of the highly volatile nature of this income component. After adding $87.1 billion to New York's taxable income during four years of exceptionally high growth from 2003 to 2007, capital gains realizations eliminated a combined $85.9 billion from NYSAGI between 2007 and 2009, falling 51.8 percent in 2008 and another 43.1 percent in 2009 (see Table 16). While capital gains realizations accounted for 16.3 percent of NYSAGI in 2007, this share fell to 8.6 percent in 2008 and to 5.5 percent in 2009. In the context of the ongoing recovery of both the national and State economies, the Budget Division estimates 20.2 percent growth in capital gains realizations for 2010, followed by 10.4 percent growth for 2011 and 28.1 percent for 2012.

The Budget Division's forecasting model attempts to capture the inherent volatility in capital gains income by incorporating those factors that are most likely to influence realization behavior, such as expected and actual tax law changes, financial market activity, and real estate market activity.[24] Federal and state taxes on capital gains income constitute a cost associated with the buying and selling of capital assets and, therefore, can greatly affect realization behavior. For example, in anticipation of the tax rate increase from 20 percent to 28 percent as part of the Tax Reform Act of 1986, taxpayers increased realizations by 90.7 percent in 1986, and reduced realizations by 54.6 percent in the following year. Similarly, the 28.1 percent growth predicted for 2012 is in part due to the unlocking of gains in anticipation of a 3.8 percent Medicare tax surcharge on investment income that is to take effect in 2013. Further increasing realizations in 2012 is the sunset of a temporarily instituted State income tax surcharge for wealthier taxpayers that is expected to encourage wealthier taxpayers to postpone some of their realizations from 2011 to 2012.[25] If the Medicare tax surcharge does not come to fruition in 2013 and the State income tax surcharge does not sunset in 2011, capital gains income would be estimated to grow by 12.0 percent in 2011 and 9.3 percent in 2012.

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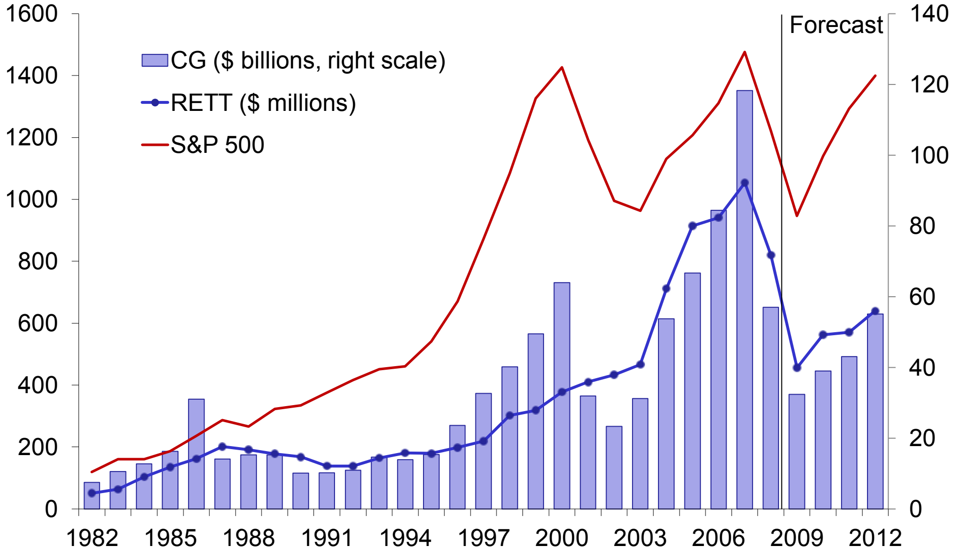
[24] For a discussion of the Budget Division's traditional approach to modeling capital gains realizations, see L. Holland, H. Kayser, R. Megna and Q. Xu "The Volatility of Capital Gains Realizations in New York State: A Monte Carlo Study," *Proceedings, 94th Annual Conference on Taxation*, National Tax Association, Washington, DC, 2002, pages 172-183.

[25] The effect of the expiring State surcharge is projected to be much smaller than the impact of the Federal rate change due to both its smaller magnitude and the Federal deductibility of state taxes.

Figure 66
Capital Gains Realizations, Real Estate Transfer Taxes and S&P 500 Index



Source: Moody's Economy.com; NYS Department of Taxation and Finance; DOB staff estimates.

Figure 66 clearly shows how fluctuations in equity markets, as measured by the Standard & Poor 500 index, and real estate markets, as measured by State real estate transfer tax collections help explain the magnitude of the fluctuations in capital gains realizations. Both markets grew strongly between 2003 and 2007, and both markets experienced precipitous declines in 2008 and 2009. While the declines in the S&P 500 in 2008 and 2009 were similar in magnitude to those experienced in the 2001-02 recession, the declines in capital gains realizations in 2001 and 2002 pale in comparison to those experienced in 2008 and 2009. The concurrent collapse of the real estate market clearly contributed to the collapse in capital gains realizations.

Equity markets began to turn around after the first quarter of 2009 and experienced 20.5 percent growth in 2010 on an annual average basis. Given the pivotal role of equity market performance, one might have expected even stronger capital gains growth than the 20.2 percent estimate for 2010. However, by the fourth quarter of 2010, stock prices had still only risen to their 2003Q4 level. The fact that the S&P 500 remains almost 300 points below its October 9, 2007 peak suggests a large outstanding inventory of yet unrealized losses. A decomposition of capital gains in California shows that gross gains in 2008 fell by 31.5 percent while gross losses increased by a staggering 387.6 percent.[26] The 2008 tax year marked the first time in the 23-year history of these data that gross losses exceeded gross gains in California. Only $3,000 of net capital losses can be applied against taxable income in a given year, but the remainder can be carried forward to be used against future capital gains. Given the magnitude of California's net losses in 2008 and the still relatively low level of the S&P 500 compared to its peak, it seems prudent to assume that a large volume of losses were used to offset taxable gains in both 2009 and 2010.

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[26] Unpublished Study, Economics and Statistical Research Bureau, California Franchise Tax Board.

The health of the real estate market also plays a critical role in determining capital gains realizations. Gains from both residential and commercial real estate transactions are taxable, though gains earned from the sale of a primary home are exempt up to a certain limit, for example, up to $500,000 for married couples filing jointly.[27] California data show that in 2008, 10.6 percent of positive capital gains realizations were generated by real estate transactions. That share has fluctuated from a low of 8.3 percent in 1996, to a high of 32.4 percent in 1990. A study based on national data indicates that in 1993, 22 percent of net capital gains realizations in the U.S. were generated by real estate transactions.[28]

State real estate transfer tax (RETT) data provide a timely indicator of the strength of real estate sales and therefore of the possible impact of the real estate market on taxable gains. After three years of exceptional growth, real estate transfer taxes fell 22.1 percent in 2008 and another 44.4 percent in 2009, resulting in a two-year drop of $597 million from the 2007 record level of $1,054 million (see Figure 66). Real estate transfers taxes staged a remarkable recovery in 2010, growing 23.3 percent, for an increase of $106 million. However, like in the case of equity markets, the 2010 level of RETT receipts remains far below their 2007 peak.

Figure 67 shows that, despite the recent growth in RETT collections, the median sales price of existing single-family homes in New York State in the third quarter of 2010 was still 15.4 percent below its value in the third quarter of 2007, with the largest declines in the downstate counties where higher home prices make it more likely that during periods of strong price growth, a sale will generate sufficient capital gains to surpass the exemption threshold. While the large declines in home values and sales in all likelihood contributed to the large declines in taxable capital gains realizations in 2008 and 2009, the impact on gains when the market starts to recover may not be symmetric. By law, all real estate transactions generate RETT receipts, even in the context of a depressed market. However, such transactions do not necessarily generate a proportional increase in taxable capital gains realizations.

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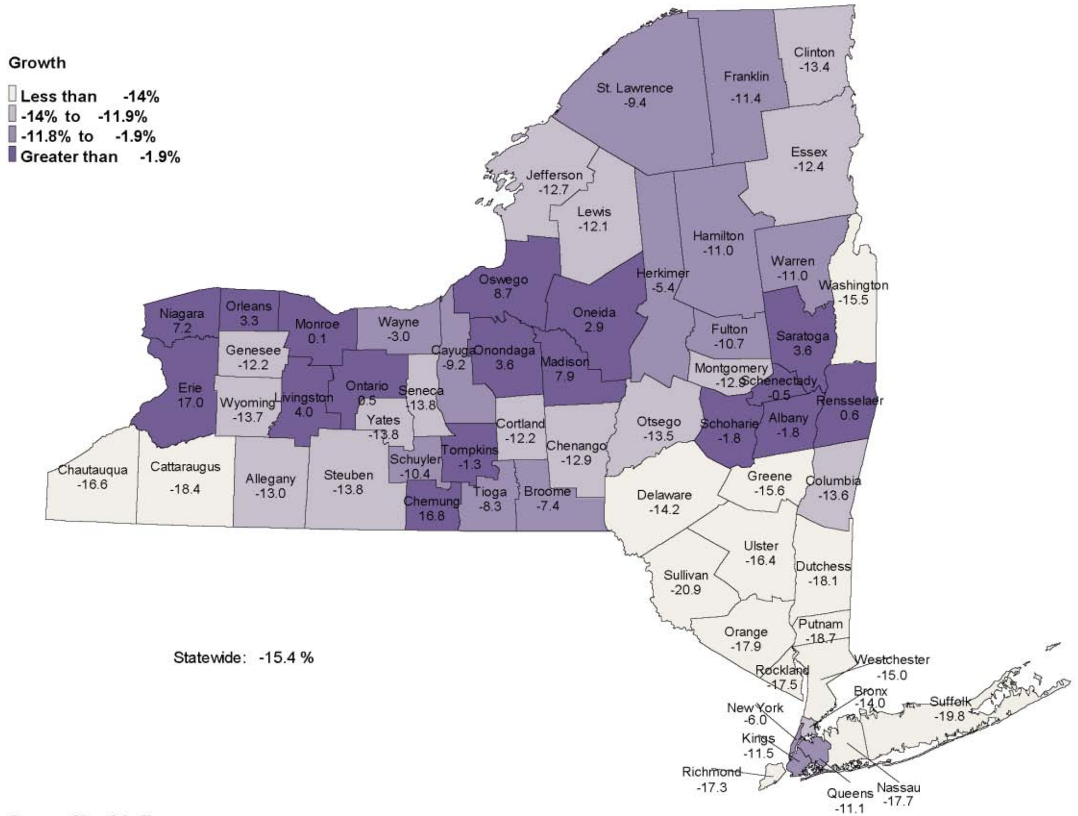
[27] Taxpayers can claim this exclusion if they have lived in their home for a total of two years within the 5-year period ending on the date they sold or exchanged their home and if they have not sold or exchanged another home within the 2-year period ending on the date they sold or exchanged their home.

[28] L. E. Burman and P. R. Ricoy, "Capital Gains and the People Who Realize Them," *National Tax Journal* 50(3), September 1997, pages 427-451.

Figure 67
Growth in Median Sales Price of Existing Single-Family Homes
2007 Q3 - 2010 Q3



Source: Moody's Economy.com

Fluctuating levels of private equity and hedge fund activity and profitability likely explain at least some of the extraordinary growth leading up to 2007 and the dramatic declines in 2008 and 2009. Private equity firms own stakes in companies that are not listed on a public stock exchange and generally receive a return on their investment through a sale or merger of the company, a recapitalization, or by selling shares back to the public through an initial public offering. The returns on private equity investments are often not realized for several years, but the rate of return is generally high relative to returns on publicly held stocks to compensate for the higher degree of risk and the value added through the extraction of operating efficiencies. Though related to the performance of equity markets and real estate markets, capital gains from private equity funds exhibit their own dynamics.

Private equity funds hit hard times in the recent past, both in terms of fund-raising activity and in terms of deals and returns. According to data provider Private Equity Intelligence Ltd., or Preqin, the global volume of capital raised by the private equity firms fell 65 percent in 2009, with the average fund size decreasing by 13 percent. The private equity sector appears to have turned the corner in 2010, recording the highest quarterly figure on record in the fourth quarter of 2010 with 265 divestments, commonly referred to as “exits,” valued at $71.8 billion. For the year as a whole, Preqin reports that private equity firms saw a more than doubling of the value of announced buyout deals, and that deal flows in North America were up 130 percent from 2009 and 35 percent from 2008.

Hedge fund performance depends on relatively easy access to borrowed funds with which to leverage and on healthy financial institutions with which to trade. Consequently, these entities experienced serious difficulties when the financial crisis made leveraging all but impossible in 2008. Hedge funds around the world recorded record losses in 2008, leading investors to withdraw a record $155 billion worth of investments, and to a large number of fund liquidations. Hedge funds had a much better year in 2009. Eurekahedge's North American Hedge Fund Index increased 23.6 percent in 2009, following a 9.0 percent drop in 2008. In 2010, the average hedge fund performance was up 10.4 percent, according to Hedge Fund Research Inc., trailing the 15 percent gain for the S&P 500 index measure that includes dividends reinvested.

There are both downside and upside risks to the forecast for capital gains realizations. Two years of declining equity and real estate markets have created realized and unrealized losses that can potentially be used to offset gains as markets recover, leading to lower taxable realizations than market conditions would predict. Moreover, large numbers of foreclosures may continue to depress the housing sector, rendering the real estate and capital gains forecast too optimistic. On the other hand, a stronger-than-expected performance of the hedge fund and private equity industry may result in stronger-than-expected growth in capital gains realizations.

Rent, Royalty, Partnership, and S Corporation Gains

After 7.2 percent growth in 2008, processing data suggests that rent, royalty, estate, trust, partnership and S corporation income fell by 11.2 percent in 2009, the largest decline in its thirty-year history. Consistent with an economy on a rebound and an upswing in equity markets, DOB estimates a brighter future for partnership and S corporation income with 6.2 percent growth for 2010, followed by growth of 10.0 percent for 2011 and 10.5 percent for 2012.

The largest contributor to this component is partnership income, much of which originates within the finance and real estate industries. A second large contributor is income from S corporation ownership. Selection of S corporation status allows firms to pass earnings through to a limited number of shareholders and to avoid corporate taxation while still enjoying limited liability as afforded by corporate status. New York State taxable partnership and S corporation income grew at a rate of 11.2 percent between 1980 and 2009, faster than the average annual rate of 6.1 percent for New York proprietors' income, as defined under NIPA and which includes partnership, S corporation, and sole proprietorship income.

At the Federal level, partnerships and S corporations are the first and second fastest growing business entity forms, according to IRS Statistics of Income (SOI) data. Between 1997 and 2007, the latest year for which SOI data are available, the number of S corporations grew 62.7 percent while the number of partnerships grew 76.1 percent.

Growth in income from Partnership and S corporations is linked to both the economy and financial markets. Strong growth in this component from 2004 to 2007 coincided with the exceptional performance of financial markets and robust national economic growth. When equity markets fell and the economy contracted in 2008, growth in partnership and S corporation gains slowed to less than half of the prior year's rate. In 2009, partnership and S corporation income fell by more than ten percent, consistent with a decline in GDP and equity market prices considerably below their 2007 peaks. Improving national and State economic conditions and recovering equity markets are estimated to have resulted in a return to growth in partnership and S corporation income in 2010.

The Budget Division's partnership and S corporation income forecast contains both upside and downside risks. Downside risks stem from the fact that the real estate market is not captured independently in the forecast model. Since there is a high concentration of real estate partnerships in New York State, downside risk results from a weak real estate market due to high unemployment levels and continued high foreclosure rates. On the other hand, a better than expected upswing of activity by hedge fund and private equity activity partnerships in 2010 and beyond represents upside risk to the forecast.

Dividend Income

Following declines of 8.4 percent in 2008 and 32.0 percent in 2009, the Budget Division estimates a return of taxable dividends to an expansionary path with 8.5 percent growth in 2010, 6.3 percent in 2011, and 4.9 percent in 2012.

Taxable dividend income is expected to rise and fall with the fortunes of publicly held U.S. firms, which, in turn, are expected to vary with the business cycle as measured by growth in real U.S. GDP, long-term interest rates as represented by the 10-year Treasury yield, the performance of equity markets, and dividend payouts by S&P 500 firms. Fluctuations in New York State taxpayers' dividend income have ranged from an estimated decline of 32.0 percent in 2009 to an increase of 26.6 percent in 2004. Taxable dividends thus prove much more variable than U.S. dividend income, a component of the NIPA definition of U.S. personal income, or dividend payouts by S&P 500 firms. While State taxable dividend income grew at an average annual rate of 5.7 percent with a standard deviation of 13.1 percentage points between 1976 and 2009, U.S. dividend income grew an average 9.7 percent annually with a standard deviation of 8.2 percentage points over the same period. Dividend payouts by S&P 500 firms also grew at an average annual rate of 5.7 percent, but with a standard deviation of only 6.9 percentage points.

Dividend income experienced four years of growth in excess of 20 percent between 2004 and 2007, where the strong growth in 2004 reflects a number of one-time dividend payouts, most notably the $32 billion dividend distribution by Microsoft. For all four years, strong economic growth and a lower tax rate for dividend income that took effect with the implementation of JGTRRA in June 2003 contributed to its strong showing. The declines in dividend income for 2008 and 2009 are consistent with the reduction or cancellation of dividend payouts by many struggling corporations during the long and severe recession. As the economy is slowly gaining traction, DOB forecasts single-digit growth starting with 2010. However, DOB does not expect taxable dividend income to reach its 2007 peak until 2016. Taxable dividend income growth could be lower than the

8.5 percent estimated for 2013 if the dividend tax rate is allowed to return to that of ordinary income rather than stay coupled with the lower capital gains tax rate. Thus, DOB's forecast contains some downside risk beginning with 2013.

Interest Income

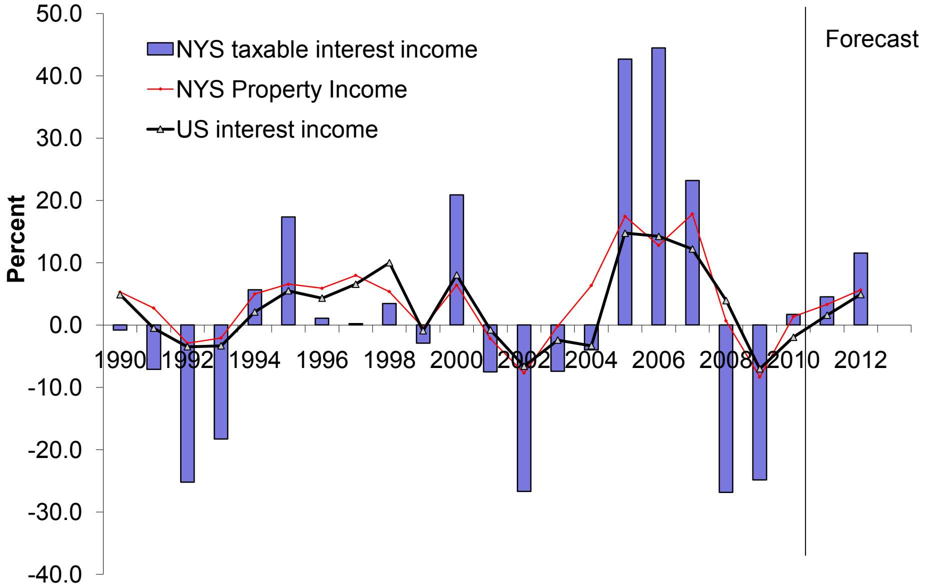
Taxable interest income fell 26.8 percent in 2008 and 24.8 percent in 2009. DOB estimates that this income component has remained almost unchanged with 1.8 percent growth in 2010, while experiencing stronger predicted growth of 4.6 percent in 2011 due to stronger economic activity, and 11.7 percent in 2012 as interest rates rise.

For a given amount of assets, an increase in interest rates will increase interest income. In addition, New York property income, a component of the NIPA definition of state personal income that includes interest income, is found to be a good indicator of the trend in taxable interest income for New York, although it is much less volatile. Taxable interest income for New York is also much more volatile than U.S. interest income, a component of the NIPA definition of U.S. personal income (see Figure 68). For the period from 1977 to 2009, the average growth rate for New York property income was 6.9 percent, with a standard deviation of 7.6 percentage points, and the average growth rate for U.S. interest income was 7.1 percent, with a standard deviation of 8.7 percentage points. In contrast, State taxable interest income averaged 4.9 percent growth over the same period, with a standard deviation of 18.6 percentage points. The additional volatility in this component of NYSAGI could be related to the behavioral response of State taxpayers to past changes in the tax law.

The remarkable growth in New York State taxpayers' interest income between 2004 and 2007 reflects a rebound from four years of declines between 2001 and 2004 due to the sharp drop in interest rates. The low interest rates were engineered by the Federal Reserve as the national economy was suffering the impact of the 2001 recession, the attacks of September 11, and their aftermath. In response to the latest severe recession, the Federal Reserve ushered in a new round of interest rate cuts starting in the second half of 2007. With the federal funds rate falling to close to zero and staying low throughout 2008 and 2009, taxable interest income for 2008 and 2009 experienced large declines. The Budget Division expects the Federal Reserve to start increasing rates toward the end of 2011 and consequently projects taxable interest income to increase for 2011 and 2012.

Figure 68

Interest Income



Source: Moody's Economy.com; NYS Department of Taxation and Finance; DOB staff estimates.

Close inspection of Figure 68 reveals that there is some downside risk to the forecast, particularly for 2010 and 2011. In 2004, a year in many respects similar to what the Budget Division expects for 2011, taxable interest income continued to fall despite a rising federal funds rate, above-average economic growth, and a housing market starting to boom. In 2004, long-term interest rates remained stubbornly low, despite the central bank's policy shift.

Small Business and Farm Income

Small business and farm income experienced two consecutive years of declines as the country experienced its longest and most severe recession since the 1930's. After falling 6.2 percent in 2008, preliminary data suggest that small business and farm income fell another 4.4 percent in 2009. The contraction of credit as a result of the financial crisis was particularly hard for small businesses for which credit is particularly critical. Because small businesses historically have a higher failure rate, small-business lending is the highest-risk lending that banks do and thus the first to go as economic conditions worsen. In an environment of tight credit, obtaining loans has been all but impossible for many small businesses. As economic conditions have slowly started improving and credit is becoming more available, the Budget Division estimates slow growth of 4.8 percent for 2010, followed by 6.5 percent for 2011, and 7.9 percent in 2012.

Small business and farm income combines income reported as a result of operating a business, practicing a profession as a sole proprietor, or operating a farm. Such income is expected to vary with the overall strength of the national and State economies. The inclusion in the model of State proprietors' income, a component of the NIPA definition of New York personal income, insures consistency between the Budget Division's New York forecast and the forecast of this component of NYSAGI. Real U.S. GDP captures the impact of the national business cycle beyond what is captured by State proprietors' income.

Small business and farm income growth has shrunk over the years. While it grew at an annual rate of 11.5 percent from 1980 to 1990, since 1991 this component of income has only grown at an annual average rate of 4.1 percent. Proprietors' income, as defined under NIPA, experienced similar changes in growth, growing at annual average rates of 12.6 percent prior to 1990 and 3.5 percent thereafter.

Risks to the forecast of business income are closely linked to the risks to the economic forecast as sole proprietors' income responds strongly to GDP growth.

Pension Income

Pension income grew 5.5 percent in 2009, following a small decline of 0.5 percent in 2008. The Budget Division estimates 3.2 percent growth for 2010, 3.6 percent for 2011, and 3.4 percent in 2012.

Pension income includes payments from retirement plans, life insurance annuity contracts, profit-sharing plans, military retirement pay, and employee savings plans. Pension income is linked to long-term interest rates during the previous year, suggesting that firms base the level of pension and life-insurance benefits they offer to employees on their expectations of future profitability, which is in turn tied to the future strength of the economy. Pension income has grown steadily over the years, although the growth rate has declined considerably over time. While the average annual growth rate between 1980 and 1990 was 12.6 percent, it fell to 6.5 percent between 1991 and 2009. This coincides with a decline in the average 10-year Treasury yield from 10.3 percent in the former period to 5.4 percent in the latter. Both declines are likely the result of lower inflation rates in the later period.

Long-term Treasury yields were exceptionally low in 2008 and 2009 as a result of exceptionally low federal funds rates and the flight to safety engendered by the financial crisis, but are expected to increase in 2011 and remain closer to recent historic averages thereafter. The risks to the forecast in pension income are thus related to the risks to long-term interest rates. If the Federal Reserve Board keeps the federal funds rate low longer than anticipated, pension income will likely be lower as well.

Changes in the State Distribution of Income and Revenue Risk

As indicated in Figure 65 on page 146, NYSAGI exhibits more volatility than other indicators of the State's tax base, such as State personal income, while tax liability is more volatile still. Box 12 compares these three important indicators of the size of the State's personal income tax base and discusses their respective volatilities.

BOX 12
INCOME TAX LIABILITY AND ALTERNATIVE MEASURES OF INCOME

A major focus of the Budget Division's forecasting effort is an accurate projection of personal income tax receipts. This requires estimates of income tax liability, which depends on taxpayer income. New York State tax law determines the components of income to be taxed and the corresponding tax rates.

Personal income tax liability is the amount which State taxpayers actually owe for a given tax year and thus measures the State's tax base.[1] Personal income tax liability is derived from taxpayers' New York State adjusted gross income (NYSAGI), in conformity with State tax law. A measure that is closely related to NYSAGI is State personal income, a U.S. Bureau of Economic Analysis national income and product accounts (NIPA) concept that measures income derived from value added to current production.[2] This widely available data source is often used as a proxy for NYSAGI. The relative volatility of personal income tax liability, NYSAGI, and State personal income, is presented in Figure 65 on page 146. For example in 2009, personal income declined 3.1 percent, while NYSAGI fell a stronger 10.8 percent and personal income tax liability at constant law fell an even stronger 14.6 percent.

Economists use the concept of elasticity to measure the sensitivity of one economic indicator to another. Elasticity is defined as the percentage change in one economic indicator when another changes by one percent. Since tax revenues tend to vary with the business cycle, we are often interested in the elasticity of the tax base with respect to a broad measure of economic conditions, such as GDP. The more sensitive a particular tax base measure is to a change in GDP, the higher the elasticity.

Typically, the elasticity of NYSAGI tends to be higher than that of personal income because NYSAGI measures the taxable components of income, which include realized capital gains and losses. Gains and losses earned on changes in asset prices are not included in the NIPA concept of personal income since they do not represent changes to the value of current production.[3] Unlike the primary drivers of personal income – employment and wages, which have relatively stable bases – income from capital gains realizations can rise and fall dramatically. In an asset market downturn such as in 2008, for example, taxpayers can refrain from selling, causing a 51.8 percent decline in capital gains realizations. In addition to behavioral responses to changes in market conditions, NYSAGI fluctuations can result from statutory changes and taxpayers' strategic responses to such changes. We expect taxpayers to realize capital gains and pay compensation early to avoid higher tax rates in 2013, shifting taxable income from 2013 to 2012.

Personal income tax liability is even more elastic than NYSAGI, primarily because of the progressivity of the State tax system. The volatile components of taxable income, such as bonuses and capital gains realizations, tend to be concentrated among the State's high-income taxpayers, who are also taxed at the highest marginal tax rate. As the more volatile income components respond strongly to changing economic conditions, the effective or average tax rate changes. Furthermore, as incomes rise, some taxpayers move into higher income tax brackets, increasing the effective tax rate and the amount of liability generated from a given amount of adjusted gross income. The opposite occurs as incomes fall. For example, the average effective tax rate fell from a high of 4.81 percent in 2000 to a low of 4.51 percent in 2002 without any significant changes in tax law. This impact is exacerbated in New York by provisions in State laws that recapture the benefits of portions of income being taxed at lower rates for high income taxpayers.

The fact that the most volatile components of income can and have accounted for a large portion of the change in NYSAGI poses significant risks to the Division of the Budget's personal income tax forecast.[4] Therefore, the Budget Division has consistently maintained that a cautious approach to projecting these components is warranted.

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[1] For a detailed discussion of personal income tax liability, see Tax Receipt Section "Personal Income Tax."

[2] For a detailed explanation of how the Budget Division constructs State personal income, see Box 9 on page 118.

[3] However, any transaction cost generated by such a sale would add value to current production and would therefore be included in personal income.

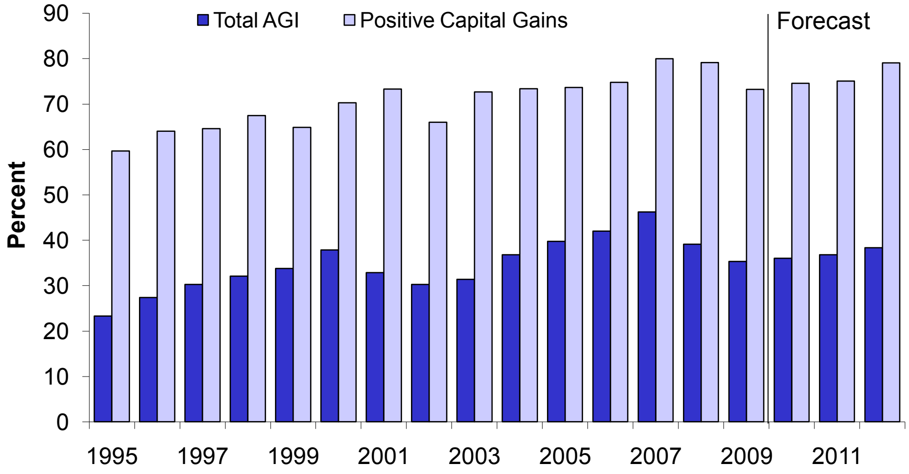
[4] For a detailed explanation of the Budget Division's use of fan charts to compute prediction intervals around forecasts, see *New York State Economic, Revenue and Spending Methodologies*, November 5, 2010, pp. 65-69, <http://www.budget.state.ny.us/pubs/supporting/MethodologyBook.pdf>.

The most volatile components of taxable income, such as bonuses and capital gains realizations, are highly concentrated among the State's highest-income taxpayers. While the top one percent of taxpayers, as determined by their NYSAGI, accounted for

39.1 percent of adjusted gross income in 2007 to 2008, they accounted for fully 79.2 percent of capital gains realizations (see Figure 69). Since the income of wealthy taxpayers is taxed at the highest rate, an accurate projection of these income components is critical to an accurate projection of personal income tax liability.

Figure 69

Income Shares of the Top One Percent Taxpayers AGI and Capital Gains Realizations



Note: For nonresident taxpayers, shares are based on total income; 2009 data are preliminary based on processing information.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

Between 1995 and 2007, the number of returns generated by high-income taxpayers – those reporting NYSAGI of $200,000 or more – grew substantially at an average annual rate of 16.9 percent. During the same period, the liability generated by these taxpayers grew even more rapidly at an annual average rate of 27.0 percent (see Figure 70). The large decline in NYSAGI and capital gains realizations estimated for 2008 and 2009 is expected to partially unwind the growth in the concentration of income, at least temporarily. Between 2007 and 2009, high-income taxpayers' share of returns is estimated to have dropped from 4.2 percent to 3.5 percent, while the share of NYSAGI dropped from 49.2 percent to 39.5 percent (see Figure 71). The liability generated by these high-income taxpayers is affected by a temporary tax increase for wealthier taxpayers for tax years 2009 to 2011.[29] Without the tax law change, the share of liability among these wealthier taxpayers would have fallen from 63.2 percent in 2007 to 53.0 percent in 2009.

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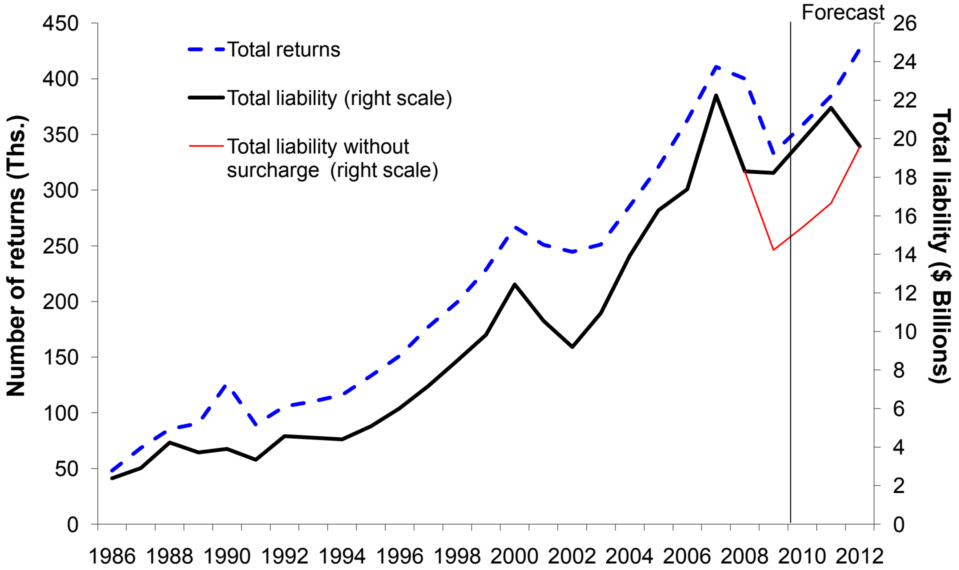
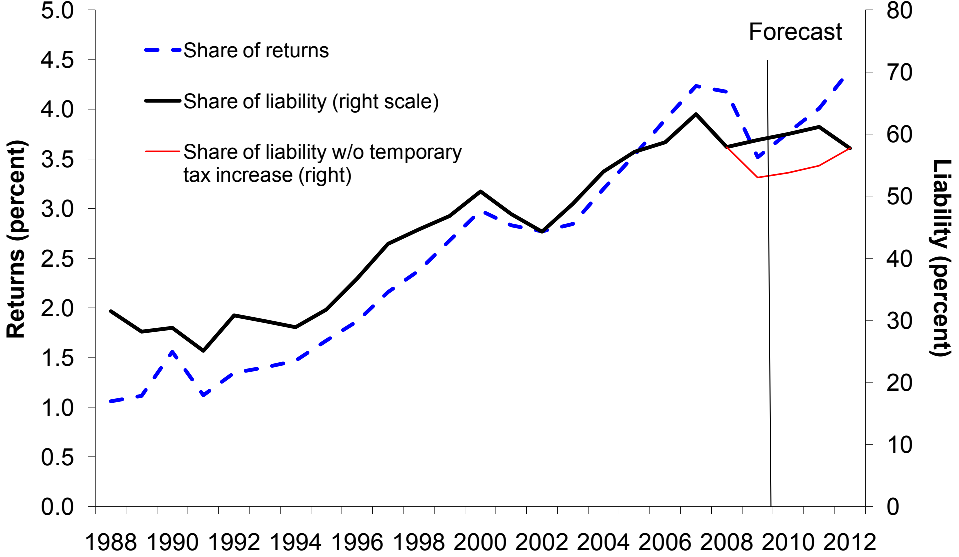
[29] See the "Personal Income Tax" section for more detail on the temporary income brackets and tax rates.

Figure 70
New York State High-Income Tax Returns



Note: High-income taxpayers are those reporting NYSAGI of $200,000 or more.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

Figure 71
High-Income Taxpayers as Percent of Total Returns and Liability



Note: High-income taxpayers are those reporting NYSAGI of $200,000 or more.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

Table 17 shows the increasing concentration of income and liability over the ten-year span from 1998 to 2008. The share of nonwage income accruing to the top 25 percent of taxpayers grew 6.4 percentage points between 1998 and 2008, while the wage share grew 4.1 percentage points. Much of the growth in nonwage income during those years was in capital gains realizations and partnership and S corporation income, which tend to accrue primarily to high-income filers. Although wage income is more evenly distributed across taxpayers than nonwage income, the gains in wages earned since 1998 have gone disproportionately to the top filers.

The large declines in capital gains income in a recession driven by the collapse of financial and real estate markets had a disproportionate impact on the top filers. Compared to the peak year of 2007, the share of non-wage income accruing to the top 25 percent of taxpayers decreased by 1.1 percentage points in 2008. The greatest decline was experienced by the top 1 percent of taxpayers, whose share fell 4.6 percentage points in just that one year. The 2009 tax year saw further declines in nonwage income and wages that can be expected to further lower the wage and nonwage income shares of the top filers.

TABLE 17
THE CONCENTRATION OF STATE INCOME AND LIABILITY
1998, 2007 and 2008

	Number of Returns	Gross Income	Wage Income	Nonwage Income	Liability
		1998			
Total ($ in millions)	8,391,193	$442,739	$309,614	$133,125	$18,986
Share: Top 1%	–	24.5	15.7	45.0	35.0
Share: Top 5%	–	39.7	30.2	61.9	54.6
Share: Top 10%	–	50.1	41.6	69.9	65.9
Share: Top 25%	–	70.3	64.8	82.9	84.4
		2007			
Total ($ millions)	9,700,043	$778,402	$485,565	$292,837	$35,217
Share: Top 1%	–	34.4	19.5	59.2	46.4
Share: Top 5%	–	49.7	35.4	73.3	65.1
Share: Top 10%	–	59.2	46.7	79.8	75.2
Share: Top 25%	–	76.7	68.5	90.4	90.2
		2008			
Total ($ in millions)	9,583,168	$713,627	$492,900	$220,727	$31,629
Share: Top 1%	–	29.8	18.7	54.6	40.6
Share: Top 5%	–	45.6	35.0	69.5	60.1
Share: Top 10%	–	56.0	46.6	76.9	71.5
Share: Top 25%	–	75.2	68.9	89.3	88.6

Note: Returns are ranked on the basis of gross income and based on a weighted statistical sample of all tax returns in the State.

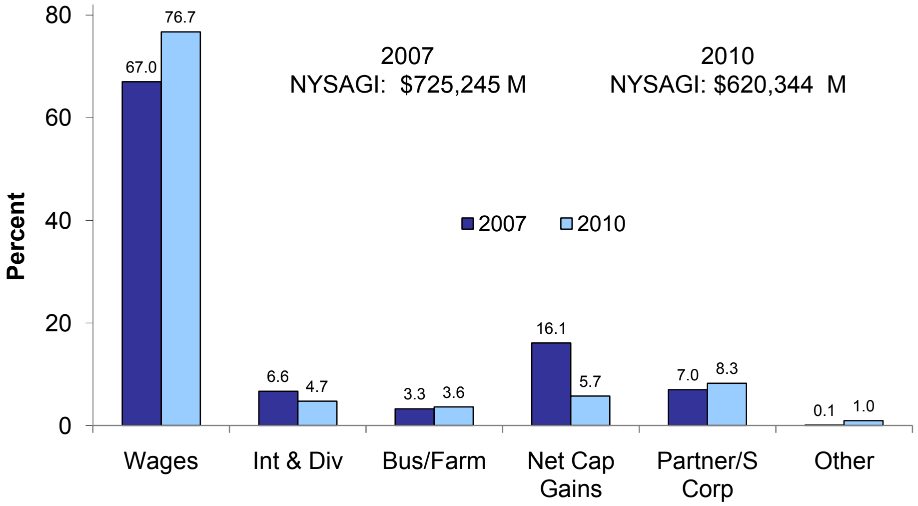
Source: NYS Department of Taxation and Finance; DOB staff estimates.

Figure 72 and Figure 73 display the estimated composition of NYSAGI for 2007 and the projected composition for 2010, both for all taxpayers and for high-income taxpayers, defined as those reporting NYSAGI of $200,000 or more. The figures show a substantial shift in income from net capital gains realizations to wages and partnership/S corporation income over the three-year period. With a 14.4 percent decline in NYSAGI over the three years for all taxpayers, the share of net capital gains income is projected to fall from 16.1 percent to 5.7 percent of NYSAGI, and the share of wages to increase from

67.0 percent to 76.7 percent. These changes reflect the extreme volatility of capital gains as compared to the relative stability of wages.

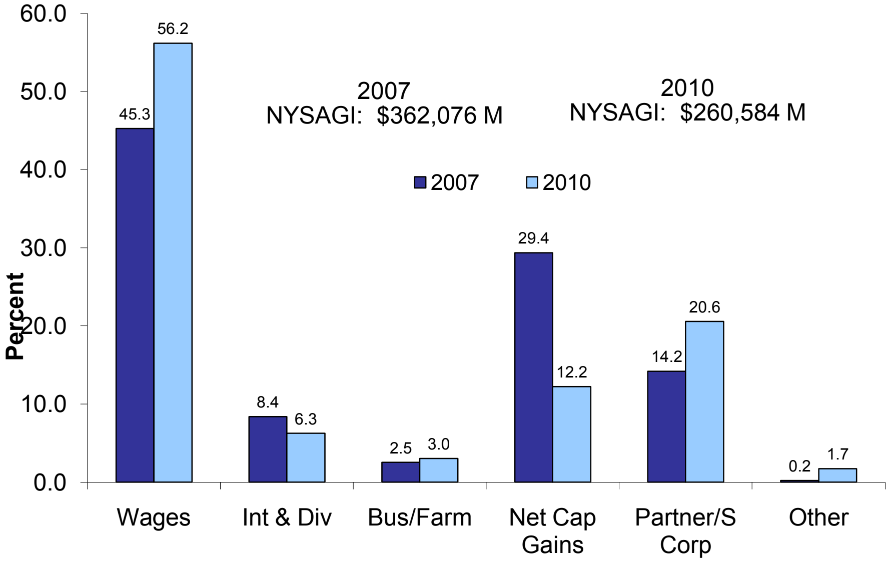
High-income taxpayers are expected to experience a much larger 28.0 percent decline in NYSAGI over the three years from 2007 to 2010 and see capital gains drop as a share of their total NYSAGI from 29.4 percent to 12.2 percent. Wages as a share of total NYSAGI are expected to increase from 45.3 percent to 56.2 percent for high-income taxpayers, while net partnership/S corporation income is expected to grow from 14.2 percent to 20.6 percent of NYSAGI. High-income taxpayers have a much higher concentration of capital gains income and partnership/S corporation income, and a much smaller concentration of wage income.

Figure 72
Composition of NYSAGI for All Taxpayers



Note: Both capital gains and partnership/S corporation gains income are net of losses.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

Figure 73
Composition of NYSAGI for High-Income Taxpayers



Note: Both capital gains and partnership/S corporation gains income are net of losses.
High-income taxpayers are those reporting NYSAGI of $200,000 or more.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

Summary

With the national economy on track for a slow recovery from a severe recession and the State economy expected to follow suit, the Budget Division's forecast for the personal income tax provides a balanced picture of upside and downside risks, particularly with respect to its most volatile components. Equity markets and the hedge fund industry are showing signs of strengthening, providing some positive momentum that may lead to larger than expected capital gains realizations. However, uncertainty about the recovery of the real estate market, a struggling private equity industry, and potentially large unrealized capital losses provide some downside risks to the forecast.

TABLE 18
SELECTED ECONOMIC INDICATORS
(Calendar Year)

	2009 (actual[1])	2010 (estimate)	2011 (forecast)	2012 (forecast)	2013 (forecast)	2014 (forecast)	1976-2009 Average[2]
U.S. Indicators[3]							
Gross Domestic Product (current dollars)	(1.7)	3.9	4.6	5.5	6.0	6.0	6.6
Gross Domestic Product	(2.6)	2.8	3.0	3.6	3.6	3.4	2.9
Consumption	(1.2)	1.8	3.6	3.3	3.3	3.3	3.1
Residential Fixed Investment	(22.9)	(2.6)	6.1	12.6	12.1	10.4	1.8
Nonresidential Fixed Investment	(17.1)	5.6	8.7	9.6	7.7	6.3	4.6
Change in Inventories (dollars)	(113.1)	74.8	50.3	57.5	52.8	43.1	25.2
Exports	(9.5)	11.7	7.4	7.3	7.5	6.8	5.6
Imports	(13.8)	13.9	8.9	7.0	7.0	6.6	6.3
Government Spending	1.6	1.2	0.8	0.9	1.9	2.1	2.1
Corporate Profits[4]	(0.4)	28.8	6.2	6.2	6.1	6.1	7.4
Personal Income	(1.7)	3.0	5.0	3.9	5.7	6.0	6.8
Wages	(4.3)	2.1	4.6	5.6	5.8	5.9	6.2
Nonagricultural Employment	(4.3)	(0.5)	1.3	2.0	2.0	2.0	1.6
Unemployment Rate (percent)	9.3	9.6	9.3	8.3	7.4	6.6	6.2
S&P 500 Stock Price Index	(22.5)	20.5	13.4	8.2	5.2	4.6	8.3
Federal Funds Rate	0.2	0.2	0.4	1.9	3.6	4.6	6.2
10-year Treasury Yield	3.3	3.3	3.5	4.2	5.0	5.5	7.4
Consumer Price Index	(0.3)	1.6	1.8	1.9	2.3	2.5	4.2
New York State Indicators							
Personal Income[5]	(3.1)	3.9	5.0	3.1	5.2	5.3	6.1
Wages and Salaries[5]							
Total	(7.2)	4.0	3.2	5.2	5.2	5.0	5.6
Without Bonus[6]	(2.6)	2.1	4.0	4.8	5.0	4.8	5.4
Bonus[6]	(31.6)	18.8	(2.0)	7.8	6.5	6.4	9.4
Finance and Insurance Bonuses[6]	(41.2)	24.1	(6.8)	10.3	7.4	7.5	16.5
Wage Per Employee	(4.4)	4.2	2.4	3.9	4.0	4.0	4.9
Property Income	(8.4)	1.5	3.4	5.7	6.7	6.5	6.8
Proprietors' Income	(3.7)	3.0	6.1	7.2	7.6	7.1	7.5
Transfer Income	12.2	6.5	3.1	0.5	3.1	4.3	6.7
Nonfarm Employment[5]							
Total	(3.1)	(0.1)	0.7	1.3	1.2	1.0	0.6
Private	(3.6)	(0.0)	1.2	1.4	1.3	1.1	0.7
Unemployment Rate (percent)	8.4	8.4	8.1	7.7	7.3	6.9	6.5
Composite CPI of New York[6]	0.2	1.8	1.9	2.1	2.4	2.6	4.2
New York State Adjusted Gross Income (NYSAGI)							
Capital Gains	(43.1)	20.2	10.4	28.1	(18.5)	7.3	16.6
Partnership/ S Corporation Gains	(11.2)	6.2	10.0	10.5	10.6	10.1	8.7
Business and Farm Income	(4.4)	4.8	6.5	7.9	8.0	8.4	7.1
Interest Income	(24.8)	1.8	4.6	11.7	13.3	10.8	5.9
Dividends	(32.0)	8.5	6.3	4.9	8.5	7.9	6.8
Total NYSAGI	(10.8)	5.1	4.5	7.0	3.9	5.8	6.0

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[1] For NYSAGI variables, 2009 is an estimate.

[2] For the NYSAGI variables, averages are calculated using data through 2008. Partnership and S corporation gains data start in 1978, NYSAGI and business income data in 1980.

[3] All indicators are percent changes except change in inventories, the unemployment rate, and interest rates; all GDP components refer to chained 2005 dollars, unless otherwise noted.

[4] Includes inventory valuation and capital consumption adjustments.

[5] Nonagricultural employment, wage, and personal income numbers are based on CEW data.

[6] Series created by the Division of the Budget.

Source: Moody's Economy.com; NYS Department of Labor; NYS Department of Taxation and Finance; DOB staff estimates.

TABLE 19

SELECTED ECONOMIC INDICATORS

(State Fiscal Year)

	2009-10 (actual)	2010-11 (estimate)	2011-12 (forecast)	2012-13 (forecast)	2013-14 (forecast)	2014-15 (forecast)	1976-77 - 2009-10 Average
U.S. Indicators[1]							
Gross Domestic Product (current dollars)	(0.6)	4.2	4.9	5.6	6.1	5.9	6.5
Gross Domestic Product	(1.1)	2.9	3.2	3.6	3.5	3.3	2.9
Consumption	(0.6)	2.4	3.6	3.3	3.3	3.3	3.1
Residential Fixed Investment	(18.1)	(0.4)	8.3	12.9	11.5	10.2	1.5
Nonresidential Fixed Investment	(13.2)	8.3	8.8	9.2	7.3	6.0	4.5
Change in Inventories (dollars)	(70.7)	77.4	49.3	59.1	49.7	42.1	25.3
Exports	(4.2)	10.8	7.3	7.3	7.5	6.6	5.7
Imports	(9.0)	16.0	7.1	7.1	6.8	6.7	6.2
Government Spending	1.5	1.4	0.5	1.2	2.0	2.0	2.1
Corporate Profits[2]	13.4	20.8	5.8	6.3	6.0	5.9	7.3
Personal Income	(0.8)	3.7	4.7	4.4	5.8	6.0	6.7
Wages	(3.0)	3.1	4.9	5.7	5.8	5.9	6.2
Nonagricultural Employment	(4.0)	0.4	1.5	2.0	2.0	2.1	1.6
Unemployment Rate (percent)	9.7	9.6	9.1	8.1	7.2	6.4	6.3
S&P 500 Stock Price Index	(5.5)	14.1	12.9	7.3	5.0	4.4	8.2
Federal Funds Rate	0.1	0.2	0.6	2.4	4.0	4.8	6.2
10-year Treasury Yield	3.5	3.1	3.7	4.4	5.2	5.6	7.3
Consumer Price Index	0.3	1.3	1.9	1.9	2.4	2.5	4.2
New York State Indicators							
Personal Income[3]	0.2	4.0	4.8	3.5	5.3	5.3	6.2
Wages and Salaries[3]							
Total	(1.5)	3.5	4.2	5.1	5.2	4.9	5.8
Without Bonus[4]	(2.3)	3.3	4.2	4.9	5.0	4.7	5.5
Bonus[4]	4.4	5.0	4.0	6.5	6.3	6.2	10.8
Finance and Insurance Bonuses[4]	6.8	3.7	3.7	7.5	7.2	7.4	15.1
Wage Per Employee	1.4	3.1	3.2	3.8	4.0	4.0	5.0
Property Income	(6.6)	2.4	4.0	6.1	6.7	6.4	7.0
Proprietors' Income	(3.3)	4.3	6.5	7.4	7.5	6.9	7.7
Transfer Income	11.9	5.1	2.2	1.0	3.5	4.5	6.7
Nonfarm Employment[3]							
Total	(2.9)	0.4	0.9	1.3	1.1	0.9	0.7
Private	(3.4)	0.6	1.3	1.4	1.2	1.0	0.8
Unemployment Rate (percent)	8.7	8.3	8.0	7.6	7.3	6.9	6.6
Composite CPI of New York[4]	0.5	1.7	1.9	2.2	2.5	2.7	4.3

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[1] All indicators are percent changes except change in inventories, the unemployment rate, and interest rates; all GDP components refer to chained 2005 dollars, unless otherwise noted.

[2] Includes inventory valuation and capital consumption adjustments.

[3] Nonagricultural employment, wage, and personal income numbers are based on CEW data.

[4] Series created by the Division of the Budget.

Source: Moody's Economy.com; NYS Department of Labor; DOB staff estimates.

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

An important consideration in tax policy decisions in New York State, and by extension in setting Budget priorities, is the position of the State in terms of state and local tax rates and bases relative to other states.

An emphasis on tax reduction in New York over much of the past thirty years has modestly reduced the disparity between New York State tax rates and burdens and those of the rest of the nation. However, local taxes in New York State remain very high relative to other states.

The data presented here suggest there is pressure on states to remain competitive with respect to tax policy. This is evidenced by the gradual clustering over time of states around the national average tax-to-income ratio. However, there is also a strong tendency for a state tax position to be highly persistent over time; this means movements towards the average have been slow. The persistence most probably reflects a combination of localized spending pressures and priorities and different state and regional attitudes towards tax policy.

Several important points on comparative tax structures can be seen by examining the accompanying tables.

TOTAL STATE AND LOCAL TAXES

- Overall, state and local tax structures are broadly similar in both the taxes imposed and the rates applied. Average rates measured by the tax-to-income ratios are also roughly equivalent across states, especially when aggregating both state and local taxes together.

- The variability across states within each category of tax (e.g., income, sales, or property taxes examined in isolation) is greater than the dispersion for taxes when examined in the aggregate (all state and local taxes added together). For example, a fairly large number of states have excluded the personal income tax from their fiscal policy mix; a smaller subset has excluded corporate taxes, and a few impose no appreciable sales tax.

- In general, it appears that the spread of state and local tax burdens across states has been narrowing over time. This may reflect both competitive pressures to keep taxes in line with other states, and the more widespread use of income taxes nationwide.

- The national average state and local tax-to-income ratio has remained remarkably stable over time and significantly below that of New York.

- The tax-to-income ratio for New York exceeded the national average by $4.96 per $100 of personal income, or 47.1 percent in 1977. In 2008, the gap was $3.83, or 35.1 percent above the national average.

State Taxes

- The “residential adjustment” made to New York personal income (the denominator in the tax-to-income ratio) is not also made to New York State personal income tax receipts, meaning the New York tax-to-income ratios discussed here are inherently overstated.

- New York is an average tax state when looking only at state taxes.

- New York taxes per $100 of personal income actually declined from $7.39 in 1977 to $7.07 in 2008.

- New York’s state tax rank declined from 10th highest in 1977, to 19th highest in 2008.

- New York’s tax burden, as measured by the ratio of state taxes to income, was ten cents below the national average in 2008.

Local Taxes

- At least a portion of New York’s significant local tax burden is due to the large portion of sales tax retained by New York localities. This contrasts sharply with other states and reflects, at least in part, the need at the local level in New York for receipts to pay for the local share of Medicaid. The local Medicaid share in New York was addressed as part of the local Medicaid relief program enacted with the 2005-06 Budget. The cost of the Medicaid program is gradually being shifted to the State and should act to reduce taxing pressures at the local level over time.

- New York City uniquely imposes taxes which comprise a large portion of New York’s total local burden. In 2008, nearly $1.75 of New York’s local burden of $7.67 per $100 of state personal income was due to New York City (NYC) personal and corporate income taxes. This accounted for more than 22 percent of the total local burden.

- Higher than average property taxes as a share of income (43.5 percent above the 2008 national average) in New York are tied, for the most part, to rapidly escalating school property taxes over the past several years.

Property Taxes in New York State

- Significant disparities exist within New York with respect to the property tax burden.

- Property tax burdens as a percent of median home value are felt most heavily in Upstate counties due to relative weakness in home value appreciation and other demographic factors. In fact, nine of the top ten highest property tax counties in the nation (and 14 of the top 20) in 2009 were in Upstate New York as measured by property taxes paid on the median-valued home in that county.[1]

- Long Island and suburban counties near NYC (Westchester, Rockland, Putnam and Orange) experienced high property taxes as a percent of each county's respective median household income in 2009. Using this metric, 5 of the 10 highest property tax counties in the nation in 2009 were clustered Downstate. At least in part, this is a housing supply issue that characterizes Downstate and that disproportionately affects the elderly and middle class.

- Noticeably, the five counties of New York City did not have relatively high residential property tax burdens in 2009 when compared to other New York counties. This is the result of the more diverse tax structure in the City and a large and valuable commercial property tax base.

TABLE CONSTRUCTION

This section compares the state and local tax structure in New York State with other states. Table 1 reports tax rates for the major tax sources utilized by state and local governments. The first and second data columns of the table show the top personal income tax rate by state, and the income level at which the top rate takes effect; the third column lists top corporate tax rates (most state corporate tax structures have relatively flat rate structures, so the rate reported often applies to all corporate income subject to tax); the fourth column reports state sales tax rates; and the final column reports the average combined state and local sales tax rates imposed by the various jurisdictions within such state. The rates are those in effect as of 2010. The income and corporate tax rates reported exclude local rates. This exclusion is important since New York is one of only a handful of states where significant local personal income and corporate taxes are imposed, as in New York City.

Tables 2 and 3 report state taxes collected by source divided by state personal income for 1977 and for 2008, respectively. The New York rank in terms of state taxes went from 10th highest to 19th highest over this period.

Tables 4 and 5 report local taxes as a share of state personal income by state in 1977 and in 2008. In 2008, New York had the highest local tax burden using this measure. New York fell from $4.13 above the mean local tax burden in 1977 to $3.92 in 2008, but some of this decrease is captured in the general decrease in variation amongst local taxes across states. The above-average local tax burden is caused by relatively high property taxes, the large sales tax burden imposed at the local level, and the high ratio in the other category that picks up the income and corporate taxes imposed by New York City.

Tables 6a, 6b and 7 report state and locally imposed taxes as a percentage of state personal income. The data used in the calculations are for fiscal years ending in 1977 and 2008, the latest year for which complete state and local tax information are available. The tax-to-income ratios included on table 7 are: state and local income taxes, state and

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[1] Source: U.S. Census Bureau; Tax Foundation calculations.

local corporate taxes, state and local sales taxes, local property taxes, all other state and local taxes, and finally combined state and local taxes. Table 8a reports changes in only the state tax-to-income ratio over the 1977-2008 period. During this time, New York's state tax burden fell relative to the mean, and has been below the mean for all but two of the last ten recorded years. Table 8b reports changes in the state and local tax-to-income ratio over the 1977-2008 period. In 1977 state and local taxes as a percent of personal income were 4.96 percentage points above the national average. In 2008, New York was 3.83 percentage points above the national average. The average state and local tax-to-income ratio has remained relatively constant nationwide over the thirty-one year period, while the New York ratio has declined overall in spite of a recent increase. In every year since 1977, New York has been at least 2.74 percentage points above the mean.

The bottom of each table reports the mean for each tax category, as well as the standard deviation and the Coefficient of Variation (CV). Additionally, the difference between the national average and New York values is reported. While the standard deviation provides a sense of how the data are dispersed around the average value for all states, the CV allows comparisons of spread for data with different averages and is defined simply as the standard deviation divided by the average and is reported as a percentage. It essentially provides a normalized, unit-free measure of dispersion.

Table 9 reports U.S. Census Bureau data on county-level property tax collections on owner-occupied housing across the U.S., as compiled and calculated by the Tax Foundation, for the 38 New York State counties that appeared in the Tax Foundation report[2]. The source report covered the 792 counties in 2009 that had populations of at least 65,000 as of July 1, 2009. Table 9 is sorted by county, in descending order of median property taxes paid on homes in that county as a percentage of the same county's median home value. Median values report the data point for which half of the data set values are higher and half lower. They differ from mean values (the sum of all observations divided by the number of observations) in that outlying values, such as particularly expensive homes, do not skew the computation. The rankings reported indicate the relative ordering of the counties with respect to the 792 U.S. counties covered, and are not relative solely to the counties of New York State.

The Tax-to-Income Percentage

The tax-to-personal-income percentage offers one simple and commonly used way of comparing states with respect to relative tax burdens. It must be noted that the real effort of tax burden analysis should be to determine who actually faces the economic consequences of a tax, not who is legally required to pay the tax. All simple measures of tax burden across states are inadequate from this perspective. In general, any single indicator of burden will necessarily be limited in value. The following three additional issues should be taken into consideration when relying on this measure:

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[2] *Property Taxes on Owner-Occupied Housing by County, 2005-2009.* Tax Foundation, September 28, 2010.

Tax Exportation

In using taxes per dollar of personal income as a measure of tax burden it must be noted that for many states a significant portion of the tax base is "exported" or paid by out-of-state taxpayers.

For example, in New York, a large number of workers from New Jersey and Connecticut pay tax on New York source income and on taxable sales while in New York. This means that, unless a portion of Connecticut's and New Jersey's personal income is also shifted to New York State, the actual burden on New Jersey residents will appear to be a burden on New York residents.

Another example of tax exportation can be seen in states with a large tourism economy. These states will realize increases in their sales tax collections and other excise taxes that may overstate the tax burden actually paid by their citizens.

Finally, methods used to apportion corporate taxable income are neither consistent across states, nor are they necessarily representative of actual activity. For example, some states use a three-factor allocation formula that takes into account the percentage of a taxpayer's property, payroll and receipts amounts in the state compared to those amounts everywhere. Other states use different formulas. These differences in allocation formulas could result in either tax importation or exportation, again distorting this measure as a method of comparison of true tax burden imposed on each state's residents.

Overall, it would seem likely that New York State is a net exporter of tax burdens relative to other states. This serves to bias the tax-to-income percentage for New York upward – making burdens in New York appear too high using this measure.

Income Adjustments

Given two states with identical marginal tax rate structures, differences in the incomes of individuals could yield different tax-to-income percentage results. For example, if New York State and Alabama had identical progressive income brackets built into their respective tax codes, the higher average personal incomes of New York State residents would tend to lead to higher taxes per dollar of personal income due to the nature of the income tax.

Particularly important is the distinction between the National Income and Product Account (NIPA) measure of personal income as defined by the Bureau of Economic Analysis (BEA), and taxable personal income as defined by each state's respective tax code. For example, the NIPA personal income measure does not include capital gains (by the definition of personal income). However, capital gains are a component of New York Adjusted Gross Income (NYAGI) that contributes significantly to personal income tax receipts in New York State. States with high income individuals, like New York, would be more likely to have the tax-to-income percentage distorted upward. In the gains example, the percentage of personal income used in Table 2 will be influenced because the numerator will include taxes on capital gains income that is not included in the denominator, effectively overstating the tax burden relative to other states since New York has a disproportionate share of taxpayers with large capital gains incomes.

Federal Offsets

The Federal tax structure allows for the deductibility of certain state and local taxes. As a result, residents of states with relatively higher state income, property and corporate tax burdens, such as New York State, receive a larger deduction, thereby offsetting a portion of the individual's total tax burden. Again, this is not reflected in the tax-to-income percentage reported here. So again, it would appear this biases the measure in a way that makes New York look like a relatively higher tax state than is actually the case.

With all three issues, the tax-to-income percentage calculation likely biases the tax burden in New York upward.

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

Table 1 Comparison of 2010 State Top Rates

State	Top PIT Rate	Highest Tax Bracket (Married Filing Joint)	Top Corp. Rate	State Sales Rate	Combined Sales Tax Rate[1]
Alabama	5	$6,000	6.5	4	8.03
Alaska	0	NA	9.4	0	1.11
Arizona	4.54	$300,000	6.97	5.6	9.01
Arkansas	7	$32,600	6.5	6	8.1
California	10.55	$1,000,000	8.84	8.25	9.08
Colorado	4.63	Flat Rate	4.63	2.9	6.97
Connecticut	6.5	$1,000,001	7.5	6	6
Delaware	6.95	$60,000	8.7	1.92	0
Florida	0	NA	5.5	6	6.98
Georgia	6	$10,001	6	4	6.95
Hawaii	11	$400,000	6.4	4	4.35
Idaho	7.8	$52,836	7.6	6	6.03
Illinois	3	Flat Rate	7.3	6.25	8.22
Indiana	3.4	Flat Rate	8.5	7	7
Iowa	8.98	$63,316	12	6	7
Kansas	6.45	$60,000	7.05	5.3	7.95
Kentucky	6	$75,000	6	6	6
Louisiana	6	$100,000	8	4	8.69
Maine	6.85	$500,000	8.93	5	5
Maryland	6.25	$1,000,001	8.25	6	6
Massachusetts	5.3	Flat Rate	8.8	6.25	6.25
Michigan	4.35	Flat Rate	4.95	6	6
Minnesota	7.85	$115,511	9.8	6.875	7.14
Mississippi	5	$10,000	5	7	7
Missouri	6	$9,000	6.25	4.225	7.46
Montana	6.9	$15,401	6.75	0	0
Nebraska	6.84	$54,000	7.81	5.5	6.39
Nevada	0	NA	0	6.85	7.96
New Hampshire	State Income tax limited to Interest Income and Dividends only		8.5	0	0
New Jersey	8.97	$1,000,001	9	7	7
New Mexico	4.9	$24,001	7.6	5.375	7.14
New York[2]	**8.97**	**$500,000**	**7.1**	**4**	**8.52**
North Carolina	7.75	$100,000	6.9	5.75	7.82
North Dakota	4.86	$357,701	6.4	5	5.87
Ohio	5.925	$200,000	0.26	5.5	6.78
Oklahoma	5.5	$15,001	6	4.5	8.33
Oregon	11	$500,001	7.9	0	0
Pennsylvania	3.07	Flat Rate	9.99	6	6.33
Rhode Island	9.9	$373,651	9	7	7
South Carolina	7	$13,701	5	6	7.26
South Dakota	0	NA	0	4	5.22
Tennessee	State Income tax limited to Interest Income and Dividends only		6.5	7	9.44
Texas	0	NA	0	6.25	7.61
Utah	5	Flat Rate	5	5.95	6.58
Vermont	8.95	$373,650	8.5	6	6
Virginia	5.75	$17,000	6	5	5
Washington	0	NA	0	6.5	8.61
West Virginia	6.5	$60,000	8.5	6	6
Wisconsin	7.75	$300,001	7.9	5	5.42
Wyoming	0	NA	0	4	5.17
Mean Values	**5.55**		**6.52**	**4.85**	**5.99**
Standard Deviation	**2.93**		**2.80**	**1.87**	**2.20**
Coefficient of Variation	**52.83**		**42.99**	**38.56**	**36.73**

[1] Source: Tax Foundation. Reflects combined state and average local rate for each state.

[2] New York State top corporate rate on qualifying manufacturers and emerging technology taxpayers is 6.5 percent.

[2] New York State top PIT rate is temporary and is scheduled to return to 6.85 percent effective January 1, 2012.

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

Table 2 - 1977 Components and Percentage of Total State Tax Burden per $100 Personal Income

State	Total State Taxes	Rank	PIT	Rank	Percent of Total	Sales and Use	Rank	Percent of Total	Cor-porate	Rank	Percent of Total	Other	Rank	Percent of Total
Alabama	6.41	26	1.10	34	17.2	3.25	21	50.7	0.35	38	5.4	1.71	16	26.7
Alaska	15.69	1	4.27	1	27.2	0.68	50	4.4	0.73	9	4.6	10.01	1	63.8
Arizona	7.21	11	1.19	29	16.4	3.66	17	50.7	0.32	40	4.5	2.05	10	28.4
Arkansas	6.43	25	1.31	26	20.4	3.81	11	59.2	0.54	18	8.4	0.78	41	12.1
California	6.57	23	1.89	15	28.8	2.49	38	37.9	0.86	4	13.0	1.34	22	20.4
Colorado	5.30	43	1.67	19	31.5	1.59	46	30.1	0.40	29	7.5	1.64	18	31.0
Connecticut	5.43	41	0.22	41	4.1	3.92	9	72.3	0.75	6	13.9	0.53	46	9.8
Delaware	8.32	3	3.37	2	40.5	1.46	47	17.6	0.62	12	7.4	2.87	5	34.5
Florida	5.28	44	0.00	45	0.0	3.49	19	66.2	0.31	41	5.9	1.47	20	27.9
Georgia	5.90	33	1.53	22	26.0	2.96	28	50.1	0.53	22	9.0	0.88	33	14.9
Hawaii	8.96	2	2.65	7	29.6	5.59	1	62.3	0.36	36	4.0	0.36	50	4.1
Idaho	6.44	24	1.97	13	30.6	3.05	26	47.5	0.54	19	8.4	0.87	35	13.5
Illinois	5.57	39	1.48	23	26.6	2.50	36	44.9	0.40	30	7.2	1.19	26	21.3
Indiana	5.59	38	1.15	30	20.5	3.69	15	66.1	0.22	44	4.0	0.52	47	9.3
Iowa	6.11	31	2.12	12	34.6	2.70	33	44.1	0.43	27	7.1	0.87	36	14.2
Kansas	5.74	34	1.24	28	21.6	2.92	30	50.9	0.73	10	12.7	0.85	37	14.8
Kentucky	7.19	12	0.95	36	13.3	3.75	12	52.2	0.60	14	8.4	1.88	14	26.2
Louisiana	7.00	16	0.54	38	7.8	1.97	40	28.2	0.39	32	5.5	4.09	2	58.5
Maine	6.92	19	1.11	33	16.0	4.37	6	63.2	0.52	23	7.5	0.92	32	13.3
Maryland	6.20	29	1.25	27	20.1	2.68	34	43.3	0.34	39	5.4	1.93	13	31.2
Massachusetts	6.70	20	2.72	6	40.6	2.68	35	40.1	0.91	2	13.5	0.39	49	5.8
Michigan	6.65	21	1.75	17	26.4	2.93	29	44.1	1.08	1	16.3	0.88	34	13.3
Minnesota	8.29	4	3.19	4	38.5	3.21	22	38.7	0.86	5	10.4	1.03	29	12.4
Mississippi	7.53	9	1.02	35	13.6	5.36	3	71.2	0.36	37	4.7	0.79	39	10.5
Missouri	4.72	47	0.90	37	19.0	1.95	41	41.3	0.31	42	6.6	1.56	19	33.1
Montana	6.12	30	2.19	11	35.8	1.63	45	26.6	0.49	26	8.0	1.81	15	29.6
Nebraska	5.67	37	1.58	20	27.8	2.92	31	51.6	0.39	33	6.8	0.78	42	13.7
Nevada	5.69	36	0.00	46	0.0	3.68	16	64.8	0.00	47	0.0	2.00	11	35.2
New Hampshire	3.34	50	0.12	42	3.5	1.90	42	56.9	0.54	20	16.3	0.78	43	23.3
New Jersey	5.01	46	1.14	32	22.9	2.02	39	40.4	0.54	21	10.7	1.30	24	26.0
New Mexico	8.04	5	0.36	40	4.5	4.85	4	60.3	0.40	31	4.9	2.44	8	30.3
New York	**7.39**	**10**	**2.20**	**10**	**29.7**	**1.22**	**48**	**16.5**	**0.89**	**3**	**12.1**	**3.09**	**4**	**41.7**
North Carolina	6.97	17	2.28	9	32.8	2.89	32	41.5	0.60	15	8.6	1.19	27	17.1
North Dakota	7.12	14	1.32	25	18.6	3.94	8	55.4	0.52	24	7.4	1.33	23	18.7
Ohio	4.42	49	0.08	43	1.7	2.50	37	56.6	0.39	34	8.8	1.45	21	32.8
Oklahoma	6.04	32	1.15	31	19.0	1.80	44	29.7	0.37	35	6.2	2.72	6	45.0
Oregon	5.30	42	3.06	5	57.7	0.75	49	14.2	0.50	25	9.4	0.99	30	18.7
Pennsylvania	6.29	28	0.47	39	7.5	3.12	23	49.6	0.75	7	11.9	1.95	12	31.0
Rhode Island	6.58	22	1.56	21	23.7	3.82	10	58.1	0.61	13	9.3	0.59	45	9.0
South Carolina	7.01	15	1.71	18	24.5	4.19	7	59.8	0.63	11	9.0	0.47	48	6.8
South Dakota	4.58	48	0.00	47	0.0	3.74	13	81.6	0.06	46	1.3	0.79	40	17.1
Tennessee	5.71	35	0.08	44	1.5	3.34	20	58.5	0.58	16	10.2	1.71	17	29.9
Texas	5.18	45	0.00	48	0.0	3.01	27	58.2	0.00	48	0.0	2.17	9	41.8
Utah	6.36	27	1.89	16	29.8	3.12	24	49.1	0.30	43	4.7	1.04	28	16.4
Vermont	7.59	8	2.32	8	30.6	3.73	14	49.1	0.56	17	7.4	0.98	31	12.9
Virginia	5.48	40	1.91	14	34.8	1.86	43	33.9	0.42	28	7.8	1.29	25	23.6
Washington	7.13	13	0.00	49	0.0	4.65	5	65.3	0.00	49	0.0	2.48	7	34.7
West Virginia	7.86	7	1.43	24	18.2	5.58	2	71.0	0.20	45	2.6	0.65	44	8.2
Wisconsin	8.01	6	3.35	3	41.9	3.08	25	38.5	0.74	8	9.2	0.84	38	10.5
Wyoming	6.95	18	0.00	50	0.0	3.61	18	52.0	0.00	50	0.0	3.34	3	48.0
Mean	**6.56**		**1.42**		**20.7**	**3.07**		**48.3**	**0.48**		**7.5**	**1.59**		**23.5**
Standard Deviation	**1.71**		**1.02**			**1.12**			**0.24**			**1.45**		
Coefficient of Variation	**26.08**		**72.06**			**36.56**			**50.75**			**91.14**		
NYS Diff. from Mean	**0.83**		**0.78**		**9.0**	**(1.85)**		**(31.8)**	**0.41**		**4.6**	**1.50**		**18.2**

Source: Moody's Economy.com, DOB Staff Estimates

Table 3 - 2008 Components and Percentage of Total State Tax Burden per $100 Personal Income

State	Total State Taxes	Rank	PIT	Rank	Percent of Total	Sales and Use	Rank	Percent of Total	Cor-porate	Rank	Percent of Total	Other	Rank	Percent of Total
Alabama	5.75	39	1.95	35	33.9	2.81	34	48.9	0.33	32	5.7	0.66	27	11.5
Alaska	28.69	1	0.00	44	0.0	0.95	49	3.3	3.34	1	11.6	24.40	1	85.0
Arizona	6.15	34	1.53	40	24.9	3.66	12	59.5	0.35	29	5.7	0.61	29	9.9
Arkansas	8.12	10	2.53	24	31.2	4.08	8	50.2	0.37	27	4.6	1.15	12	14.2
California	7.35	14	3.49	6	47.5	2.49	37	33.9	0.74	5	10.1	0.62	28	8.4
Colorado	4.55	48	2.40	27	52.7	1.66	45	36.5	0.24	40	5.3	0.25	49	5.5
Connecticut	7.31	16	3.75	3	51.3	2.91	29	39.8	0.30	35	4.1	0.34	45	4.7
Delaware	8.31	8	2.85	14	34.3	1.37	48	16.5	0.88	4	10.6	3.21	5	38.6
Florida	4.89	46	0.00	44	0.0	4.00	9	81.8	0.30	36	6.1	0.59	32	12.1
Georgia	5.35	42	2.62	18	49.0	2.28	40	42.6	0.28	37	5.2	0.18	50	3.4
Hawaii	9.54	3	2.86	13	30.0	6.12	1	64.2	0.20	44	2.1	0.36	42	3.8
Idaho	7.29	17	2.87	12	39.4	3.48	17	47.7	0.38	25	5.2	0.56	34	7.7
Illinois	5.83	36	1.89	37	32.4	2.83	32	48.5	0.57	9	9.8	0.55	36	9.4
Indiana	6.88	24	2.20	30	32.0	3.82	11	55.5	0.41	21	6.0	0.44	39	6.4
Iowa	6.17	33	2.55	23	41.3	2.65	36	42.9	0.31	34	5.0	0.66	26	10.7
Kansas	6.57	27	2.70	17	41.1	2.84	31	43.2	0.48	13	7.3	0.55	35	8.4
Kentucky	7.38	13	2.56	22	34.7	3.46	18	46.9	0.39	23	5.3	0.97	17	13.1
Louisiana	6.71	25	1.93	36	28.8	3.38	21	50.4	0.43	20	6.4	0.97	16	14.5
Maine	7.98	11	3.29	8	41.2	3.59	13	45.0	0.39	24	4.9	0.70	22	8.8
Maryland	5.82	37	2.57	21	44.2	2.31	39	39.7	0.27	39	4.6	0.66	25	11.3
Massachusetts	6.63	26	3.78	2	57.0	1.83	43	27.6	0.66	6	10.0	0.36	43	5.4
Michigan	7.04	20	2.04	33	29.0	3.39	20	48.2	0.51	12	7.2	1.11	14	15.8
Minnesota	8.24	9	3.50	5	42.5	3.34	22	40.5	0.47	15	5.7	0.93	18	11.3
Mississippi	7.59	12	1.74	39	22.9	4.74	3	62.5	0.43	19	5.7	0.68	23	9.0
Missouri	5.12	45	2.39	29	46.7	2.23	41	43.6	0.18	46	3.5	0.32	48	6.3
Montana	7.34	15	2.60	19	35.4	1.63	46	22.2	0.48	14	6.5	2.63	6	35.8
Nebraska	6.02	35	2.46	26	40.9	2.90	30	48.2	0.33	33	5.5	0.33	46	5.5
Nevada	5.80	38	0.00	44	0.0	4.67	4	80.5	0.00	47	0.0	1.12	13	19.3
New Hampshire	3.93	50	0.21	42	5.3	1.38	47	35.1	1.07	2	27.2	1.27	9	32.3
New Jersey	6.91	23	2.84	15	41.1	2.82	33	40.8	0.64	8	9.3	0.60	30	8.7
New Mexico	8.64	7	1.86	38	21.5	4.08	6	47.2	0.54	11	6.3	2.17	7	25.1
New York	**7.07**	**19**	**3.95**	**1**	**55.9**	**2.18**	**42**	**30.8**	**0.54**	**10**	**7.6**	**0.39**	**41**	**5.5**
North Carolina	7.02	21	3.39	7	48.3	2.75	35	39.2	0.37	26	5.3	0.51	38	7.3
North Dakota	9.11	5	1.25	41	13.7	3.44	19	37.8	0.64	7	7.0	3.78	4	41.5
Ohio	6.34	32	2.39	28	37.7	3.09	24	48.7	0.18	45	2.8	0.67	24	10.6
Oklahoma	6.39	29	2.14	31	33.5	2.33	38	36.5	0.28	38	4.4	1.65	8	25.8
Oregon	5.31	44	3.62	4	68.2	0.55	50	10.4	0.35	30	6.6	0.78	20	14.7
Pennsylvania	6.41	28	2.08	32	32.4	3.06	25	47.7	0.44	18	6.9	0.84	19	13.1
Rhode Island	6.35	31	2.51	25	39.5	3.18	23	50.1	0.34	31	5.4	0.33	47	5.2
South Carolina	5.46	40	1.96	34	35.9	2.93	28	53.7	0.22	43	4.0	0.35	44	6.4
South Dakota	4.29	49	0.00	44	0.0	3.48	16	81.1	0.23	42	5.4	0.58	33	13.5
Tennessee	5.33	43	0.13	43	2.4	3.97	10	74.5	0.46	16	8.6	0.75	21	14.1
Texas	4.69	47	0.00	44	0.0	3.51	15	74.8	0.00	47	0.0	1.19	11	25.4
Utah	6.97	22	2.96	10	42.5	3.02	26	43.3	0.45	17	6.5	0.54	37	7.7
Vermont	10.57	2	2.59	20	24.5	3.55	14	33.6	0.35	28	3.3	4.08	3	38.6
Virginia	5.36	41	2.95	11	55.0	1.77	44	33.0	0.23	41	4.3	0.41	40	7.6
Washington	6.37	30	0.00	44	0.0	5.11	2	80.2	0.00	47	0.0	1.26	10	19.8
West Virginia	8.78	6	2.73	16	31.1	4.08	7	46.5	0.97	3	11.0	1.00	15	11.4
Wisconsin	7.17	18	3.16	9	44.1	3.00	27	41.8	0.41	22	5.7	0.60	31	8.4
Wyoming	9.39	4	0.00	44	0.0	4.36	5	46.4	0.00	47	0.0	5.03	2	53.6
Mean	**7.17**		**2.16**		**31.9**	**3.06**		**46.1**	**0.45**		**6.1**	**1.49**		**15.8**
Standard Deviation	**3.38**		**1.14**			**1.06**			**0.47**			**3.42**		
Coefficient of Variation	**47.15**		**53.12**			**34.51**			**102.68**			**229.27**		
NYS Diff. from Mean	**(0.10)**		**1.79**		**24.0**	**(0.88)**		**(15.2)**	**0.09**		**1.5**	**(1.10)**		**(10.3)**

Source: U.S. Census Bureau, DOB Staff Estimates

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

Table 4 - 1977 Components and Percentage of Total Local Taxes Per $100 of Personal Income

State	Total	Rank	Property	Rank	Percent of Total	Sales	Rank	Percent of Total	Other	Rank	Percent of Total
Alabama	2.16	47	0.87	50	40.6	0.90	4	41.6	0.39	9	17.9
Alaska	3.26	36	2.57	36	78.6	0.65	13	20.0	0.04	45	1.4
Arizona	4.75	14	3.88	18	81.8	0.76	9	16.0	0.11	30	2.3
Arkansas	2.03	48	1.85	44	90.9	0.12	29	6.1	0.06	41	3.0
California	5.89	4	5.02	8	85.2	0.65	14	11.0	0.22	16	3.8
Colorado	5.29	8	4.01	15	75.9	1.11	3	21.0	0.16	21	3.1
Connecticut	4.82	13	4.77	10	99.1	0.00	44	0.0	0.04	46	0.9
Delaware	1.96	49	1.67	46	85.0	0.00	42	0.2	0.29	12	14.7
Florida	3.29	35	2.78	31	84.4	0.40	20	12.1	0.12	28	3.5
Georgia	3.66	30	2.97	28	81.3	0.56	16	15.2	0.13	26	3.5
Hawaii	2.44	42	1.95	43	80.1	0.23	24	9.4	0.26	15	10.5
Idaho	3.13	38	3.04	26	97.3	0.02	37	0.8	0.06	40	2.0
Illinois	4.53	15	3.71	20	81.9	0.66	12	14.5	0.16	20	3.6
Indiana	3.34	34	3.22	24	96.6	0.01	41	0.2	0.11	29	3.3
Iowa	4.13	20	4.00	16	96.9	0.01	39	0.2	0.12	27	2.9
Kansas	4.27	19	4.02	14	94.1	0.16	27	3.8	0.09	34	2.1
Kentucky	2.39	43	1.60	47	66.9	0.11	31	4.7	0.68	5	28.5
Louisiana	3.17	37	1.54	49	48.5	1.49	2	47.1	0.14	24	4.4
Maine	3.67	29	3.64	21	99.3	0.00	45	0.0	0.03	50	0.7
Maryland	4.50	16	2.93	29	65.1	0.20	26	4.4	1.37	1	30.4
Massachusetts	6.52	2	6.48	1	99.4	0.00	46	0.0	0.04	49	0.6
Michigan	4.31	18	3.95	17	91.6	0.04	35	1.0	0.32	11	7.4
Minnesota	3.74	27	3.59	22	96.0	0.07	33	2.0	0.08	36	2.1
Mississippi	2.29	45	2.17	38	94.5	0.08	32	3.7	0.04	48	1.8
Missouri	3.93	23	2.75	33	69.8	0.80	7	20.2	0.39	8	10.0
Montana	5.28	9	5.08	7	96.1	0.00	47	0.0	0.21	17	3.9
Nebraska	5.62	5	5.24	5	93.3	0.25	22	4.4	0.13	25	2.3
Nevada	4.09	21	2.76	32	67.5	0.76	8	18.7	0.57	6	13.9
New Hampshire	5.45	6	5.35	4	98.1	0.00	48	0.0	0.11	32	1.9
New Jersey	6.10	3	5.50	3	90.2	0.52	17	8.5	0.08	35	1.3
New Mexico	1.95	50	1.59	48	81.7	0.21	25	11.0	0.14	23	7.4
New York	**8.09**	**1**	**5.53**	**2**	**68.4**	**1.51**	**1**	**18.7**	**1.04**	**3**	**12.9**
North Carolina	2.60	41	2.14	41	82.4	0.40	19	15.5	0.05	42	2.0
North Dakota	3.58	31	3.45	23	96.5	0.02	38	0.6	0.11	31	3.0
Ohio	3.97	22	3.03	27	76.3	0.14	28	3.5	0.81	4	20.3
Oklahoma	2.91	40	2.04	42	70.0	0.82	6	28.3	0.05	43	1.8
Oregon	5.05	12	4.65	12	92.3	0.11	30	2.3	0.28	13	5.5
Pennsylvania	3.92	24	2.59	35	66.2	0.03	36	0.9	1.29	2	32.9
Rhode Island	4.46	17	4.42	13	99.1	0.00	49	0.0	0.04	47	0.9
South Carolina	2.31	44	2.15	40	93.2	0.00	43	0.1	0.15	22	6.7
South Dakota	5.33	7	4.82	9	90.6	0.24	23	4. 6	0.26	14	4.9
Tennessee	3.34	33	2.27	37	68.0	0.88	5	26.3	0.19	18	5.8
Texas	3.74	28	3.21	25	85.8	0.46	18	12.2	0.07	37	2.0
Utah	3.55	32	2.91	30	81.8	0.56	15	15.7	0.09	33	2.6
Vermont	5.26	10	5.19	6	98.7	0.00	50	0.0	0.07	39	1.3
Virginia	3.78	26	2.60	34	69.0	0.75	10	19.9	0.42	7	11.1
Washington	3.08	39	2.15	39	70.0	0.74	11	24.2	0.18	19	5.9
West Virginia	2.20	46	1.80	45	81.8	0.06	34	2.8	0.34	10	15.3
Wisconsin	3.88	25	3.83	19	98.7	0.01	40	0.1	0.05	44	1.2
Wyoming	5.10	11	4.69	11	92.0	0.34	21	6.6	0.07	38	1.4
Mean	**3.96**		**3.36**		**84.8**	**0.36**		**9.0**	**0.24**		**6.2**
Standard Deviation	**1.31**		**1.30**			**0.40**			**0.30**		
CV	**33.18**		**38.66**			**111.00**			**123.72**		
NYS Diff. from Mean	**4.13**		**2.17**		**(16.4)**	**1.15**		**9.7**	**0.80**		**6.7**

Source: Moody's Economy.com, DOB Staff estimates.

Note: "Other" includes NYC imposed taxes and other categories.

Table 5 - 2008 Components and Percentage of Total Local Taxes Per $100 of Personal Income

State	Total	Rank	Property	Rank	Percent of Total	Sales	Rank	Percent of Total	Other	Rank	Percent of Total
Alabama	2.97	39	1.27	49	42.8	1.18	6	39.7	0.52	6	17.5
Alaska	4.22	16	3.36	15	79.6	0.73	16	17.3	0.12	31	3.0
Arizona	4.04	21	2.61	32	64.5	1.20	5	29.7	0.23	21	5.8
Arkansas	1.86	49	0.84	50	45.2	0.98	9	52.7	0.04	50	2.1
California	4.01	22	3.16	19	78.8	0.57	19	14.2	0.28	20	6.9
Colorado	4.58	8	2.90	27	63.3	1.39	2	30.4	0.29	18	6.3
Connecticut	4.26	15	4.17	6	97.8	0.00	35	0.0	0.10	40	2.2
Delaware	2.20	48	1.72	43	78.0	0.00	35	0.0	0.48	9	22.0
Florida	4.59	7	4.13	8	89.9	0.18	28	4.0	0.28	19	6.1
Georgia	4.31	13	3.00	24	69.6	1.18	7	27.3	0.14	29	3.1
Hawaii	2.63	43	2.32	38	88.3	0.00	35	0.0	0.31	17	11.7
Idaho	2.51	47	2.36	37	93.9	0.00	34	0.0	0.16	27	6.1
Illinois	4.30	14	3.88	9	90.2	0.25	27	5.8	0.16	26	3.9
Indiana	3.52	31	3.15	20	89.6	0.00	35	0.0	0.37	15	10.4
Iowa	4.00	23	3.33	16	83.2	0.53	21	13.2	0.14	28	3.6
Kansas	4.14	19	3.31	17	80.0	0.73	17	17.6	0.10	36	2.4
Kentucky	2.62	45	1.67	45	63.8	0.00	35	0.0	0.95	5	36.2
Louisiana	4.05	20	1.70	44	42.1	2.23	1	55.0	0.12	32	3.0
Maine	4.52	10	4.47	4	98.8	0.00	35	0.0	0.05	49	1.2
Maryland	4.21	17	2.22	40	52.6	0.00	35	0.0	2.00	2	47.4
Massachusetts	3.61	27	3.53	12	97.8	0.00	35	0.0	0.08	45	2.2
Michigan	3.58	30	3.37	14	94.2	0.00	35	0.0	0.21	22	5.8
Minnesota	2.81	42	2.66	31	94.8	0.05	32	1.9	0.09	41	3.3
Mississippi	2.63	44	2.52	35	95.9	0.00	35	0.0	0.10	37	4.1
Missouri	3.84	24	2.54	33	66.3	0.85	13	22.2	0.44	11	11.5
Montana	2.94	40	2.85	29	97.0	0.00	35	0.0	0.09	42	3.0
Nebraska	4.52	9	3.54	11	78.2	0.49	22	10.8	0.49	8	11.0
Nevada	3.60	28	2.87	28	79.6	0.28	26	7.8	0.46	10	12.6
New Hampshire	4.73	6	4.66	3	98.5	0.00	35	0.0	0.07	46	1.5
New Jersey	5.20	2	5.12	1	98.5	0.00	35	0.0	0.08	44	1.5
New Mexico	3.06	38	1.63	46	53.4	1.25	4	40.8	0.18	24	5.8
New York	**7.67**	**1**	**4.22**	**5**	**55.1**	**1.27**	**3**	**16.5**	**2.17**	**1**	**28.4**
North Carolina	3.13	37	2.42	36	77.5	0.60	18	19.3	0.10	35	3.3
North Dakota	3.34	35	2.91	26	87.1	0.36	24	10.9	0.07	47	2.0
Ohio	4.91	4	3.29	18	67.1	0.40	23	8.2	1.22	3	24.7
Oklahoma	2.91	41	1.62	47	55.7	1.16	8	40.0	0.13	30	4.3
Oregon	3.58	29	3.09	22	86.3	0.00	35	0.0	0.50	7	13.7
Pennsylvania	4.33	12	3.09	21	71.4	0.06	31	1.5	1.18	4	27.2
Rhode Island	4.83	5	4.75	2	98.3	0.00	35	0.0	0.08	43	1.7
South Carolina	3.42	32	2.94	25	85.9	0.08	30	2.5	0.40	12	11.7
South Dakota	3.77	25	2.79	30	73.9	0.88	12	23.3	0.10	38	2.7
Tennessee	3.25	36	2.16	41	66.3	0.91	11	27.8	0.19	23	5.8
Texas	4.20	18	3.52	13	83.9	0.57	20	13.5	0.11	34	2.6
Utah	3.39	33	2.53	34	74.7	0.74	15	21.8	0.12	33	3.5
Vermont	1.60	50	1.53	48	95.3	0.02	33	1.4	0.05	48	3.2
Virginia	3.76	26	3.07	23	81.7	0.31	25	8.4	0.37	14	9.9
Washington	3.38	34	2.15	42	63.7	0.85	14	25.1	0.37	13	11.2
West Virginia	2.58	46	2.22	39	86.0	0.00	35	0.0	0.36	16	14.0
Wisconsin	4.38	11	4.14	7	94.4	0.14	29	3.3	0.10	39	2.3
Wyoming	4.93	3	3.83	10	77.7	0.92	10	18.6	0.18	25	3.7
Mean	**3.75**		**2.94**		**78.6**	**0.47**		**12.6**	**0.34**		**8.8**
Std. Dev.	**1.00**		**0.94**			**0.52**			**0.44**		
CV	**26.56**		**31.97**			**110.47**			**129.89**		
NYS Diff.	**3.92**		**1.28**		**(23.5)**	**0.80**		**3.9**	**1.83**		**19.6**

Source: U.S. Census Bureau, DOB Staff estimates.

Note: "Other" includes NYC imposed taxes and all other categories.

Table 6a - State/Local Split of 1977 Tax-to-Income Ratio

State	State Taxes	Local Taxes	State/Local
Alabama	6.41	2.16	8.56
Alaska	15.69	3.26	18.96
Arizona	7.21	4.75	11.97
Arkansas	6.43	2.03	8.47
California	6.57	5.89	12.46
Colorado	5.30	5.29	10.58
Connecticut	5.43	4.82	10.24
Delaware	8.32	1.96	10.28
Florida	5.28	3.29	8.57
Georgia	5.90	3.66	9.56
Hawaii	8.96	2.44	11.40
Idaho	6.44	3.13	9.56
Illinois	5.57	4.53	10.10
Indiana	5.59	3.34	8.92
Iowa	6.11	4.13	10.24
Kansas	5.74	4.27	10.01
Kentucky	7.19	2.39	9.58
Louisiana	7.00	3.17	10.17
Maine	6.92	3.67	10.59
Maryland	6.20	4.50	10.70
Massachusetts	6.70	6.52	13.23
Michigan	6.65	4.31	10.96
Minnesota	8.29	3.74	12.03
Mississippi	7.53	2.29	9.82
Missouri	4.72	3.93	8.66
Montana	6.12	5.28	11.41
Nebraska	5.67	5.62	11.29
Nevada	5.69	4.09	9.78
New Hampshire	3.34	5.45	8.79
New Jersey	5.01	6.10	11.10
New Mexico	8.04	1.95	10.00
New York	**7.39**	**8.09**	**15.48**
North Carolina	6.97	2.60	9.57
North Dakota	7.12	3.58	10.70
Ohio	4.42	3.97	8.40
Oklahoma	6.04	2.91	8.95
Oregon	5.30	5.05	10.34
Pennsylvania	6.29	3.92	10.21
Rhode Island	6.58	4.46	11.04
South Carolina	7.01	2.31	9.31
South Dakota	4.58	5.33	9.91
Tennessee	5.71	3.34	9.05
Texas	5.18	3.74	8.92
Utah	6.36	3.55	9.91
Vermont	7.59	5.26	12.85
Virginia	5.48	3.78	9.26
Washington	7.13	3.08	10.21
West Virginia	7.86	2.20	10.06
Wisconsin	8.01	3.88	11.89
Wyoming	6.95	5.10	12.05
Mean Values	**6.56**	**3.96**	**10.52**
Standard Deviation	**1.71**	**1.30**	**1.82**
Coefficient of Variation	**26.08**	**32.85**	**17.34**
NYS Diff. from Avg.	**0.83**	**4.13**	**4.96**

Sources: Moody's Economy.com, DOB Staff Estimates

Table 6b - State/Local Split of 2008 Tax-to-Income Ratio

State	State Taxes	Local Taxes	State/Local
Alabama	5.75	2.97	8.72
Alaska	28.69	4.22	32.91
Arizona	6.15	4.04	10.19
Arkansas	8.12	1.86	9.98
California	7.35	4.01	11.36
Colorado	4.55	4.58	9.13
Connecticut	7.31	4.26	11.57
Delaware	8.31	2.20	10.51
Florida	4.89	4.59	9.48
Georgia	5.35	4.31	9.66
Hawaii	9.54	2.63	12.17
Idaho	7.29	2.51	9.80
Illinois	5.83	4.30	10.13
Indiana	6.88	3.52	10.40
Iowa	6.17	4.00	10.17
Kansas	6.57	4.14	10.71
Kentucky	7.38	2.62	10.00
Louisiana	6.71	4.05	10.76
Maine	7.98	4.52	12.50
Maryland	5.82	4.21	10.03
Massachusetts	6.63	3.61	10.24
Michigan	7.04	3.58	10.62
Minnesota	8.24	2.81	11.05
Mississippi	7.59	2.63	10.22
Missouri	5.12	3.84	8.96
Montana	7.34	2.94	10.28
Nebraska	6.02	4.52	10.54
Nevada	5.80	3.60	9.40
New Hampshire	3.93	4.73	8.66
New Jersey	6.91	5.20	12.11
New Mexico	8.64	3.06	11.70
New York	**7.07**	**7.67**	**14.74**
North Carolina	7.02	3.13	10.15
North Dakota	9.11	3.34	12.45
Ohio	6.34	4.91	11.25
Oklahoma	6.39	2.91	9.30
Oregon	5.31	3.58	8.89
Pennsylvania	6.41	4.33	10.74
Rhode Island	6.35	4.83	11.18
South Carolina	5.46	3.42	8.88
South Dakota	4.29	3.77	8.06
Tennessee	5.33	3.25	8.58
Texas	4.69	4.20	8.89
Utah	6.97	3.39	10.36
Vermont	10.57	1.60	12.17
Virginia	5.36	3.76	9.12
Washington	6.37	3.38	9.75
West Virginia	8.78	2.58	11.36
Wisconsin	7.17	4.38	11.55
Wyoming	9.39	4.93	14.32
Mean Values	**7.17**	**3.75**	**10.91**
Standard Deviation	**3.38**	**1.00**	**3.42**
Coefficient of Variation	**47.15**	**26.56**	**31.36**
NYS Diff. from Avg.	**(0.10)**	**3.92**	**3.83**

Sources: U.S. Census Bureau, DOB Staff Estimates

Table 7 - 2008 Ratios of Tax Collections to Personal Income by Category

State	State PIT	Local PIT	State Corporate	Local Corporate	State Sales	Local Sales	Local Property	All Other	Total State/Local
Alabama	1.95	0.07	0.33	0.00	2.81	1.18	1.27	1.11	8.72
Alaska	0.00	0.00	3.34	0.00	0.95	0.73	3.36	24.53	32.91
Arizona	1.53	0.00	0.35	0.00	3.66	1.20	2.61	0.84	10.19
Arkansas	2.53	0.00	0.37	0.00	4.08	0.98	0.84	1.18	9.98
California	3.49	0.00	0.74	0.00	2.49	0.57	3.16	0.91	11.36
Colorado	2.40	0.00	0.24	0.00	1.66	1.39	2.90	0.54	9.13
Connecticut	3.75	0.00	0.30	0.00	2.91	0.00	4.17	0.44	11.57
Delaware	2.85	0.16	0.88	0.00	1.37	0.00	1.72	3.53	10.51
Florida	0.00	0.00	0.30	0.00	4.00	0.18	4.13	0.87	9.48
Georgia	2.62	0.00	0.28	0.00	2.28	1.18	3.00	0.30	9.66
Hawaii	2.86	0.00	0.20	0.00	6.12	0.00	2.32	0.67	12.17
Idaho	2.87	0.00	0.38	0.00	3.48	0.00	2.36	0.71	9.80
Illinois	1.89	0.00	0.57	0.00	2.83	0.25	3.88	0.71	10.13
Indiana	2.20	0.25	0.41	0.00	3.82	0.00	3.15	0.57	10.40
Iowa	2.55	0.07	0.31	0.00	2.65	0.53	3.33	0.73	10.17
Kansas	2.70	0.00	0.48	0.00	2.84	0.73	3.31	0.65	10.71
Kentucky	2.56	0.77	0.39	0.09	3.46	0.00	1.67	1.06	10.00
Louisiana	1.93	0.00	0.43	0.00	3.38	2.23	1.70	1.09	10.76
Maine	3.29	0.00	0.39	0.00	3.59	0.00	4.47	0.76	12.50
Maryland	2.57	1.57	0.27	0.00	2.31	0.00	2.22	1.09	10.03
Massachusetts	3.78	0.00	0.66	0.00	1.83	0.00	3.53	0.44	10.24
Michigan	2.04	0.13	0.51	0.00	3.39	0.00	3.37	1.18	10.62
Minnesota	3.50	0.00	0.47	0.00	3.34	0.05	2.66	1.02	11.05
Mississippi	1.74	0.00	0.43	0.00	4.74	0.00	2.52	0.79	10.22
Missouri	2.39	0.17	0.18	0.00	2.23	0.85	2.54	0.60	8.96
Montana	2.60	0.00	0.48	0.00	1.63	0.00	2.85	2.72	10.28
Nebraska	2.46	0.00	0.33	0.00	2.90	0.49	3.54	0.83	10.54
Nevada	0.00	0.00	0.00	0.00	4.67	0.28	2.87	1.58	9.40
New Hampshire	0.21	0.00	1.07	0.00	1.38	0.00	4.66	1.34	8.66
New Jersey	2.84	0.00	0.64	0.00	2.82	0.00	5.12	0.69	12.11
New Mexico	1.86	0.00	0.54	0.00	4.08	1.25	1.63	2.34	11.70
New York	**3.95**	**1.07**	**0.54**	**0.68**	**2.18**	**1.27**	**4.22**	**0.83**	**14.74**
North Carolina	3.39	0.00	0.37	0.00	2.75	0.60	2.42	0.61	10.15
North Dakota	1.25	0.00	0.64	0.00	3.44	0.36	2.91	3.85	12.45
Ohio	2.39	1.01	0.18	0.03	3.09	0.40	3.29	0.85	11.25
Oklahoma	2.14	0.00	0.28	0.00	2.33	1.16	1.62	1.77	9.30
Oregon	3.62	0.00	0.35	0.05	0.55	0.00	3.09	1.23	8.89
Pennsylvania	2.08	0.78	0.44	0.00	3.06	0.06	3.09	1.22	10.74
Rhode Island	2.51	0.00	0.34	0.00	3.18	0.00	4.75	0.40	11.18
South Carolina	1.96	0.00	0.22	0.00	2.93	0.08	2.94	0.75	8.88
South Dakota	0.00	0.00	0.23	0.00	3.48	0.88	2.79	0.68	8.06
Tennessee	0.13	0.00	0.46	0.00	3.97	0.91	2.16	0.96	8.58
Texas	0.00	0.00	0.00	0.00	3.51	0.57	3.52	1.29	8.89
Utah	2.96	0.00	0.45	0.00	3.02	0.74	2.53	0.66	10.36
Vermont	2.59	0.00	0.35	0.00	3.55	0.02	1.53	4.13	12.17
Virginia	2.95	0.00	0.23	0.00	1.77	0.31	3.07	0.78	9.12
Washington	0.00	0.00	0.00	0.00	5.11	0.85	2.15	1.64	9.75
West Virginia	2.73	0.00	0.97	0.00	4.08	0.00	2.22	1.36	11.36
Wisconsin	3.16	0.00	0.41	0.00	3.00	0.14	4.14	0.70	11.55
Wyoming	0.00	0.00	0.00	0.00	4.36	0.92	3.83	5.21	14.32
Mean Values	**2.16**	**0.12**	**0.45**	**0.02**	**3.06**	**0.47**	**2.94**	**1.69**	**10.91**
Standard Deviation	**1.14**	**0.32**	**0.47**	**0.10**	**1.06**	**0.52**	**0.94**	**3.41**	**3.42**
Coefficient of Variation	**53.12**	**267.19**	**102.68**	**561.65**	**34.51**	**110.47**	**31.97**	**201.23**	**31.36**
NYS Diff. from Avg.	**1.79**	**0.95**	**0.09**	**0.66**	**(0.88)**	**0.80**	**1.28**	**(0.86)**	**3.83**

Sources: U.S. Census Bureau, DOB Staff Estimates

Table 8a - State Tax Burdens as a Pct. Of Personal Inc., 1977 - 2008

Year	Mean	NYS	Standard Deviation	Coefficient of Variation	NY difference from mean
1977	6.56	7.39	1.17	26.08	0.83
1978	6.42	6.91	1.34	20.80	0.49
1979	6.47	6.71	1.70	36.32	0.24
1980	6.45	6.57	2.72	42.21	0.12
1981	6.47	6.43	4.03	62.33	(0.04)
1982	6.62	6.55	3.67	55.48	(0.07)
1983	6.41	6.41	2.58	40.20	0.00
1984	6.58	6.69	2.34	35.55	0.12
1985	6.64	6.89	2.05	30.93	0.26
1986	6.61	7.10	2.02	30.52	0.49
77-86 avg.	**6.52**	**6.77**	**2.36**	**38.04**	**0.24**
1987	6.53	7.22	1.32	20.25	0.69
1988	6.64	7.02	1.41	21.26	0.38
1989	6.57	6.63	1.40	21.31	0.06
1990	6.54	6.75	1.42	21.73	0.21
1991	6.58	6.52	1.59	24.08	(0.07)
1992	6.55	6.64	1.32	20.14	0.09
1993	6.82	6.77	1.62	23.76	(0.05)
1994	6.73	6.99	1.21	18.05	0.26
1995	6.88	6.84	1.44	20.91	(0.04)
1996	6.74	6.46	1.33	19.80	(0.28)
87-96 avg.	**6.66**	**6.78**	**1.41**	**21.13**	**0.13**
1997	6.81	6.26	1.34	19.73	(0.55)
1998	6.71	6.11	1.28	19.01	(0.60)
1999	6.73	6.25	1.31	19.53	(0.49)
2000	6.76	6.29	1.22	18.09	(0.47)
2001	6.69	6.60	1.17	17.53	(0.10)
2002	6.35	6.39	1.12	17.66	0.05
2003	6.31	6.12	1.11	17.61	(0.19)
2004	6.42	6.21	1.14	17.79	(0.21)
2005	6.75	6.35	1.38	20.41	(0.40)
2006	6.95	6.78	1.48	21.31	(0.17)
97-06 avg.	**6.65**	**6.34**	**1.25**	**18.87**	**(0.31)**
2007	7.00	7.01	1.64	23.39	0.02
2008	7.17	7.07	3.38	47.15	(0.10)

Sources: Moody's Economy.com, U.S. Census Bureau, DOB Staff Estimates

Table 8b - State/Local Tax Burdens as a Pct. of Personal Inc., 1977 - 2008

Year	Mean	NYS	Standard Deviation	Coefficient of Variation	NY Difference From Mean
1977	10.52	15.48	1.82	17.34	4.96
1978	10.21	14.68	1.48	14.51	4.47
1979	10.11	13.95	1.80	17.79	3.84
1980	9.94	13.56	2.81	28.29	3.62
1981	9.86	13.21	4.07	41.30	3.35
1982	10.07	13.33	3.74	37.15	3.26
1983	9.95	13.22	2.79	28.03	3.27
1984	10.05	13.43	2.58	25.63	3.39
1985	10.19	13.82	2.37	23.28	3.63
1986	10.23	14.09	2.41	23.52	3.86
77-86 avg.	**10.11**	**13.88**	**2.59**	**25.68**	**3.77**
1987	10.28	14.47	1.65	16.04	4.19
1988	10.38	14.10	1.62	15.63	3.72
1989	10.28	13.67	1.47	14.34	3.39
1990	10.31	13.86	1.49	14.49	3.55
1991	10.43	13.87	1.65	15.81	3.44
1992	10.40	14.11	1.40	13.42	3.71
1993	10.70	14.53	1.72	16.08	3.82
1994	10.63	14.71	1.18	11.07	4.08
1995	10.79	14.22	1.41	13.03	3.43
1996	10.55	13.72	1.20	11.34	3.17
87-96 avg.	**10.48**	**14.13**	**1.48**	**14.13**	**3.65**
1997	10.63	13.55	1.21	11.35	2.92
1998	10.48	13.26	1.12	10.66	2.78
1999	10.45	13.26	1.01	9.68	2.80
2000	10.36	13.10	1.05	10.10	2.74
2001	10.24	13.12	0.97	9.48	2.88
2002	10.12	13.13	0.95	9.42	3.02
2003	10.18	13.45	0.99	9.76	3.27
2004	10.29	13.75	1.05	10.24	3.46
2005	10.66	14.06	1.26	11.80	3.40
2006	10.89	14.61	1.35	12.40	3.72
97-06 avg.	**10.43**	**13.53**	**1.10**	**10.49**	**3.10**
2007	10.92	14.88	1.58	14.46	3.96
2008	10.91	14.74	3.42	31.36	3.83

Sources: Moody's Economy.com, U.S. Census Bureau, DOB Staff Estimates

Table 9 - 2009 Property Taxes on Owner-Occupied Housing, by County

County	Median Property Taxes Paid on Homes	Rank	Median Home Value	Taxes as % of Home Value	Rank	Median Income for Home Owners	Taxes as % of Income	Rank
Monroe County	$3,891	71	$134,500	2.9%	1	$66,369	5.9%	47
Niagara County	$2,867	149	$99,900	2.9%	2	$55,424	5.2%	59
Wayne County	$3,051	129	$109,700	2.8%	3	$57,275	5.3%	54
Chemung County	$2,434	230	$93,100	2.6%	4	$55,156	4.4%	108
Chautauqua County	$2,102	299	$80,600	2.6%	5	$49,321	4.3%	129
Erie County	$3,119	122	$119,900	2.6%	6	$61,929	5.0%	65
Onondaga County	$3,156	121	$126,100	2.5%	7	$65,460	4.8%	72
Steuben County	$2,020	309	$81,200	2.5%	9	$50,629	4.0%	165
Madison County	$2,712	179	$111,500	2.4%	10	$59,344	4.6%	95
Cayuga County	$2,486	219	$103,100	2.4%	12	$56,620	4.4%	110
Oswego County	$2,249	264	$93,700	2.4%	13	$58,386	3.9%	187
Schenectady County	$3,804	77	$160,900	2.4%	15	$65,537	5.8%	48
Cattaraugus County	$1,834	359	$77,800	2.4%	16	$47,898	3.8%	192
Oneida County	$2,460	225	$106,600	2.3%	19	$56,402	4.4%	119
Broome County	$2,428	231	$108,100	2.2%	23	$53,589	4.5%	101
Tompkins County	$3,687	90	$168,400	2.2%	28	$68,276	5.4%	53
Ontario County	$2,927	142	$136,600	2.1%	33	$65,526	4.5%	106
Rensselaer County	$3,749	82	$179,800	2.1%	43	$70,408	5.3%	55
St. Lawrence County	$1,613	416	$80,300	2.0%	57	$52,389	3.1%	348
Clinton County	$2,320	253	$117,800	2.0%	62	$58,470	4.0%	170
Sullivan County	$3,476	99	$179,000	1.9%	65	$57,924	6.0%	44
Nassau County	$8,940	2	$475,500	1.9%	77	$104,465	8.6%	5
Orange County	$5,677	21	$305,900	1.9%	85	$89,067	6.4%	30
Rockland County	$8,542	5	$463,300	1.8%	89	$99,843	8.6%	6
Putnam County	$7,295	12	$396,400	1.8%	90	$93,387	7.8%	9
Suffolk County	$7,361	11	$407,500	1.8%	102	$92,207	8.0%	8
Albany County	$3,760	81	$215,200	1.7%	122	$79,336	4.7%	82
Ulster County	$4,129	59	$246,100	1.7%	136	$69,197	6.0%	45
Westchester County	$9,044	1	$544,700	1.7%	138	$109,692	8.2%	7
Dutchess County	$5,118	31	$310,600	1.6%	142	$83,270	6.1%	39
Jefferson County	$1,996	315	$129,100	1.5%	166	$57,156	3.5%	257
Saratoga County	$3,409	105	$235,300	1.4%	194	$81,074	4.2%	136
Warren County	$2,473	223	$181,800	1.4%	229	$58,388	4.2%	134
Richmond County	$2,966	137	$449,400	0.7%	612	$84,957	3.5%	258
Bronx County	$2,412	237	$393,600	0.6%	652	$68,206	3.5%	247
Queens County	$2,896	143	$475,600	0.6%	654	$73,664	3.9%	174
New York County	$4,742	38	$849,000	0.6%	689	$129,470	3.7%	223
Kings County	$2,834	156	$570,300	0.5%	713	$76,674	3.7%	215
National Average	$1,917	NA	$185,200	1.0%		$63,306	3.0%	NA

Source: U.S. Census Bureau; Tax Foundation calculations.

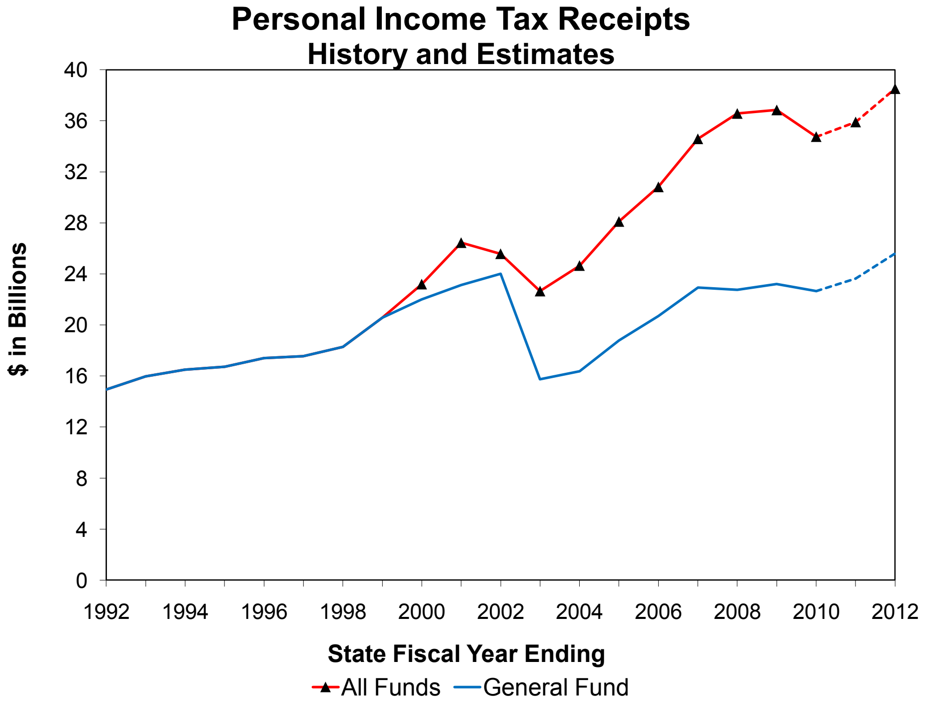
TAX RECEIPTS

PERSONAL INCOME TAX

PERSONAL INCOME TAX
(millions of dollars)

	2009-10 Actual	2010-11 Estimated	Change	Percent Change	2011-12 Projected	Change	Percent Change
General Fund	22,654.4	23,623.9	969.5	4.3	25,588.8	1,964.9	8.3
Other Funds	12,096.8	12,275.1	178.3	1.5	12,920.2	645.1	5.3
All Funds	34,751.2	35,899.0	1,147.8	3.3	38,509.0	2,610.0	7.3

Note: Totals may differ due to rounding.



PERSONAL INCOME TAX BY FUND
(millions of dollars)

	Gross General Fund	Refunds	General Fund Receipts	Special Revenue Funds[1]	Debt Service Funds[2]	All Funds Receipts
2001-02	27,529	3,515	24,014	1,310	250	25,574
2002-03	20,037	4,296	15,741	2,664	4,243	22,648
2003-04	20,813	4,442	16,371	2,819	5,457	24,647
2004-05	23,448	4,668	18,781	3,059	6,260	28,100
2005-06	26,431	5,731	20,700	3,213	6,900	30,813
2006-07	28,450	5,510	22,940	3,994	7,646	34,580
2007-08	29,365	6,606	22,759	4,664	9,141	36,564
2008-09	30,367	7,171	23,196	4,434	9,210	36,840
2009-10	29,296	6,642	22,654	3,409	8,688	34,751
Estimated						
2010-11	31,310	7,686	23,624	3,300	8,975	35,899
2011-12						
Current Law	32,954	7,612	25,342	3,418	9,587	38,347
Proposed Law	33,100	7,512	25,589	3,293	9,627	38,509

[1] School Tax Relief Fund.

[2] Debt Reduction Reserve Fund and Revenue Bond Tax Fund.

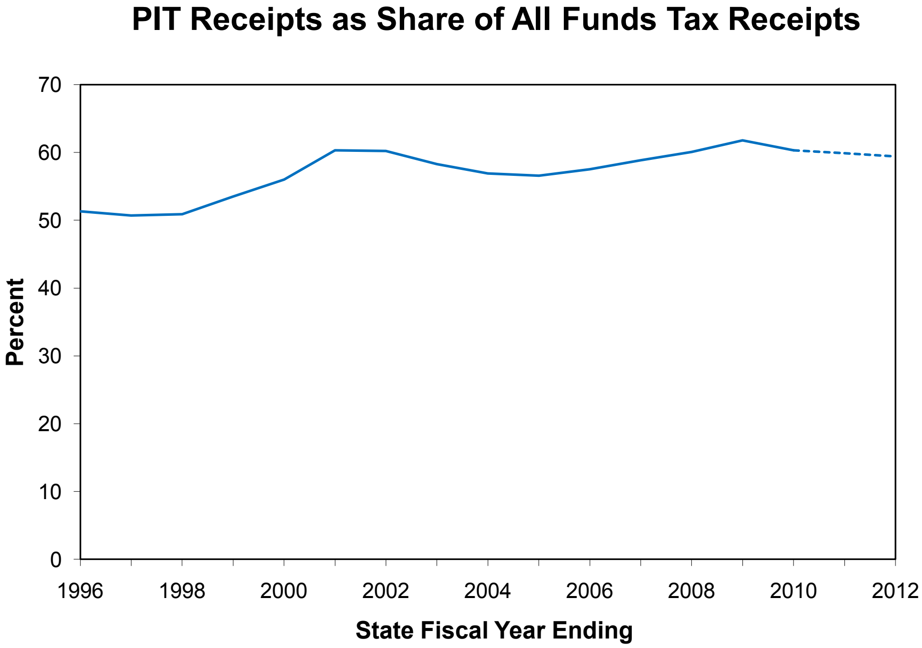
PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- make permanent tax shelter reporting provisions that are set to expire on July 1, 2011;
- make technical corrections to the Empire Zones program to grant the Department of Economic Development (DED) the authority to continue to monitor Empire Zone Program compliance and to decertify non-complying businesses;
- extend the financial services investment tax credit through October 1, 2015;
- provide the Commissioner of the Division of Housing and Community Renewal (DHCR) authorization to allocate an additional $4 million in low income housing tax credits;
- reform and improve the job creating effectiveness of the Excelsior economic development program;
- cap the annual growth of STAR exemption benefits at two percent;
- expand e-filing requirements as a part of the Tax Modernization Project; and
- improve tax collections by offsetting tax debts against large Lottery winnings.

DESCRIPTION

The personal income tax is by far New York State's largest source of tax receipts. It is estimated that the personal income tax will account for approximately 60 percent of All Funds tax receipts in 2010-11 and 2011-12.



Note: PIT Receipts are defined as gross receipts minus refunds.

Tax Base

The State's personal income tax structure adheres closely to the definitions of adjusted gross income and itemized deductions used for Federal personal income tax purposes, with certain modifications, such as: (1) the inclusion of investment income from debt instruments issued by other states and municipalities and the exclusion of income on certain Federal obligations; (2) the exclusion of pension income received by Federal, New York State and local government employees, private pension and annuity income up to $20,000 ($40,000 for married couples filing jointly), and any Social Security income and refunds otherwise included in Federal adjusted gross income; and (3) the subtraction of State and local income taxes from Federal itemized deductions.

New York allows either a standard deduction or itemized deductions whichever is greater. Although New York generally conforms to Federal rules pertaining to itemized deductions, the State imposes some additional limitations. New York limits itemized deductions for taxpayers with New York State Adjusted Gross Incomes (NYSAGI) between $525,000 and $1 million to only 50 percent of federally allowed deductions, and for taxpayers with incomes above $1 million to only 50 percent of charitable contributions. For tax years 2010 to 2012, itemized deductions are limited to only 25 percent of charitable contributions for taxpayers with NYSAGI above $10 million.

Tax Rates and Structure

As shown in Table 1, beginning in 1995, personal income tax rates were gradually reduced over three years. These reductions reduced the top tax rates from 7.875 (in 1994) to the current permanent top rate of 6.85 percent, increased the income thresholds applicable to various tax brackets, and increased the standard deduction. In tax years 2003, 2004, and 2005, a temporary personal income tax surcharge added two new brackets applicable to taxpayers with taxable income over $150,000 and taxable income over $500,000, and increased the top rate to 7.7 percent. In 2006, the top rate returned to 6.85 percent, reflecting the sunset of the temporary surcharge, and the standard deduction for married taxpayers filing jointly increased from $14,600 to $15,000. For tax years 2009 through 2011 two new tax brackets and rates have been added, applicable to taxpayers with taxable incomes over $300,000 for married filing jointly returns (with lower levels for other filing categories) and taxable incomes over $500,000 for all filers, and the top bracket tax rates have been increased to 8.97 percent. The top rate is scheduled to return to 6.85 percent for tax year 2012.

TABLE 1
PERSONAL INCOME TOP TAX RATES, STANDARD DEDUCTIONS, AND DEPENDENT EXEMPTIONS

	1995	1996	1997-2000	2001	2002	2003-2005	2006-2008	2009-2011	2012-after
Top Rate (Percent)	7.59375	7.125	6.85	6.85	6.85	7.70	6.85	8.97	6.85
Thresholds									
Married Filing Jointly	25,000	26,000	40,000	40,000	40,000	500,000	40,000	500,000	40,000
Single	12,500	13,000	20,000	20,000	20,000	500,000	20,000	500,000	20,000
Head of Household	19,000	17,000	30,000	30,000	30,000	500,000	30,000	500,000	30,000
Standard Deduction									
Married Filing Jointly	10,800	12,350	13,000	13,400	14,200	14,600	15,000	15,000	15,000
Single	6,600	7,400	7,500	7,500	7,500	7,500	7,500	7,500	7,500
Head of Household	8,150	10,000	10,500	10,500	10,500	10,500	10,500	10,500	10,500
Dependent Exemption	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000

TABLE 2
TAX SCHEDULES FOR 2011 LIABILITY YEAR*
(dollars)

Married - Filing Jointly			Single			Head of Household		
Taxable Income	Tax Rate Percent	Of Amt. Over	Taxable Income	Tax Rate Percent	Of Amt. Over	Taxable Income	Tax Rate Percent	Of Amt. Over
0 to 16,000	0		0 to 8,000	0		0 to 11,000	0	
	+4.00	0		+4.00	0		+4.00	0
16,000 to 22,000	640		8,000 to 11,000	320		11,000 to 15,000	440	
	+4.50	16,000		+4.50	8,000		+4.50	11,000
22,000 to 26,000	910		11,000 to 13,000	455		15,000 to 17,000	620	
	+5.25	22,000		+5.25	11,000		+5.25	15,000
26,000 to 40,000	1,120		13,000 to 20,000	560		17,000 to 30,000	725	
	+5.90	26,000		+5.90	13,000		+5.90	17,000
40,000 to 300,000	1,946		20,000 to 200,000	973		30,000 to 250,000	1,492	
	+6.85	40,000		+6.85	20,000		+6.85	30,000
300,000 to 500,000	19,756	300,000	200,000 to 500,000	13,303	200,000	250,000 to 500,000	16,562	250,000
	+7.85			+7.85			+7.85	
500,000 and over	35,456	500,000	500,000 and over	36,853	500,000	500,000 and over	36,187	500,000
	+8.97			+8.97			+8.97	

*Benefits of graduated tax rates recaptured for taxpayers with adjusted gross incomes above $100,000.

Tax Expenditures

Tax expenditures are defined as features of the Tax Law that by exclusion, exemption, deduction, allowance, credit, deferral, preferential tax rate or other statutory provision reduce the amount of a taxpayer’s liability to the State by providing either economic incentives or tax relief to particular entities to achieve a public purpose. The personal income tax structure includes various exclusions, exemptions, tax credits, and other statutory devices designed to adjust State tax liability. For a more detailed discussion of tax expenditures, see the Annual Report on New York State Tax

Expenditures, prepared by the Department of Taxation and Finance and the Division of the Budget.

Credits

Current law authorizes a wide variety of credits against personal income tax liability. The major individual credits are:

Credit	Description
Earned Income Tax Credit (EITC)	Allowed at a rate of 7.5 percent of the Federal credit in 1994, 10 percent in 1995, and 20 percent in 1996 and thereafter. Starting in 1996, the EITC is offset by the amount of the household credit. The EITC was raised to 22.5 percent of the Federal credit in 2000, 25 percent in 2001, 27.5 percent in 2002, and 30 percent in 2003 and thereafter. The credit is fully refundable for New York residents whose credit amount exceeds tax liability. The Federal Economic Growth and Tax Relief Reconciliation Act of 2001 provided marriage penalty relief for married taxpayers filing jointly by increasing the phase-out range for the credit beginning in 2002.
Household Credit	Permitted for single taxpayers in amounts declining from $75 to $20, as their household income rises to $28,000, and for married couples and heads of households, in amounts declining from $90 to $20, as their household income rises to $32,000. This latter category is also eligible for additional amounts based on the number of eligible exemptions and income level.
Child and Dependent Care Credit	Allowed at a rate of 20 percent or more of the comparable Federal credit. In 1997, the credit became refundable and equal to 60 percent of the Federal credit for those with incomes under $10,000, with a phase-down until it was 20 percent for incomes of $14,000 and above. In 1998, the percentage of the Federal credit increased to 100 percent for those with incomes less than $17,000, with this percentage gradually phasing down to 20 percent for those with incomes of $30,000 or more. For 1999, the phase-down from 100 percent to 20 percent began at incomes of $35,000 and ended at incomes of $50,000. For 2000 and later years, the credit as a share of the Federal credit equals 110 percent for incomes up to $25,000, phases down from 110 percent to 100 percent for incomes between $25,000 and $40,000, equals 100 percent for incomes between $40,000 and $50,000, phases down from 100 percent to 20 percent for incomes between $50,000 and $65,000, and equals 20 percent for incomes over $65,000. The credit is fully refundable for New York residents whose credit amount exceeds tax liability. Federal legislation enacted in 2001 and effective in 2003 increased maximum allowable expenses from $2,400 to $3,000 for one dependent ($4,800 to $6,000 for two or more dependents); the maximum credit rate from 30 percent to 35 percent; and the income at which the credit begins to phase down from $10,000 to $15,000.
College Tuition Tax Credit	Available as an alternative to the college tuition deduction, this refundable credit equals the applicable percentage of allowed tuition expenses multiplied by 4 percent. It was phased in over a four-year period with applicable percentages of allowed tuition expenses beginning at 25 percent in tax year 2001, 50 percent in 2002, 75 percent in tax year 2003, and 100 percent in 2004 and thereafter. For 2004 and thereafter the minimum credit is the lesser of tuition paid or $200 and the maximum credit is $400 (4 percent of expenses up to $10,000).
Real Property Tax Circuit Breaker Credit	Based on a more inclusive definition of income than that used generally in the income tax. For eligible taxpayers over the age of 65, the credit ranges downward from $375 as income rises to $18,000; for other taxpayers, the credit can be as high as $75.
Agricultural Property Tax Credit	Permitted for allowable school district property taxes paid by an eligible farmer on qualified agricultural property.
Empire State Child Credit	Effective in 2006, this refundable credit for children ages 4-16 equals the greater of $100 times the number of children qualifying for the Federal credit or 33 percent of the Federal credit.
Long Term Care Insurance Credit	A non-refundable credit equal to 10 percent of a taxpayer's long-term care insurance premium became effective in 2002. The credit amount was increased to 20 percent in 2004. Unused amounts may be carried forward to future tax years.

In addition, credits are allowed for investment in production facilities, for investment in economic development zones, film production, brownfields, and for personal income taxes paid to other states. Other minor credits also apply.

Significant Legislation

The significant statutory changes made to the State personal income tax since 1987 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1987		
Tax Reform and Reduction	In response to Federal tax reform, the State reduced the top rate from 9 percent on earned income and 13 percent on unearned income to 7 percent on all income and increased standard deduction amounts. The reductions were implemented over a five-year period.	1987 and after
Legislation Enacted in 1990-1994		
Tax Reduction Program	Annually delayed the final two years of the 1987 legislation that would have reduced to the top rate from 7.875 percent to 7.593575 percent and then to 6.85 percent.	1990-1994
Legislation Enacted in 1991		
Rate Recapture	Enacted the "supplemental tax" to recapture the value of marginal tax rates below the top rate.	1991 and after
Legislation Enacted in 1993		
Limited Liability Companies	Authorized the formation of LLCs and imposed a fee.	1994 and after
Legislation Enacted in 1994		
Earned Income Tax Credit	Enacted a new State credit equal to a percentage of the Federal credit. The rates were set at 7.5 percent of the Federal credit in 1994, 10 percent in 1995, 15 percent in 1996, and 20 percent in 1997 and thereafter.	1994 and after
Legislation Enacted in 1995		
Standard Deduction	Increased the standard deduction over three years.	1995 and after
Tax Rate Schedule	Reduced the top tax rate from 7.875 percent to 6.85 percent and raised bracket thresholds over three years.	1995 and after
Earned Income Tax Credit	Accelerated into 1996 from 1997 the credit of 20 percent of the Federal amount, but offset it by the household credit.	1996
Legislation Enacted in 1996		
Child and Dependent Care Credit	Increased the credit for taxpayers with adjusted gross incomes of less than $14,000 and made the credit refundable for residents.	1996 and after
Agricultural Property Tax Credit	Created a credit for school property tax that farmers pay on their farm property.	1997 and after
Legislation Enacted in 1997		
Child and Dependent Care Credit	Increased credit to 100 percent of the Federal credit for incomes up to $17,000, phasing down to 20 percent for incomes of $30,000 or more.	1998 and after
College Choice Tuition Savings Program	Authorized taxpayers to deduct from Federal AGI (FAGI) up to $5,000 ($10,000 for married couples filing jointly) of contributions made to family tuition accounts.	1998 and after
School Tax Relief Program (STAR)	Created the STAR program for school property exemptions and NYC income tax reductions, financed by PIT receipts.	
Legislation Enacted in 1998		
Child and Dependent Care Credit	Increased the credit to 100 percent of the Federal credit for incomes up to $35,000, phasing down to 20 percent for incomes of $50,000 or more.	1999 and after
School Tax Relief Program (STAR)	Accelerated the fully effective senior citizens' school property tax exemption and began the deposit of a portion of personal income tax receipts into the STAR fund.	1998-99 school year
Alternative Fuels Vehicle Credit	Created a credit for vehicles powered by electricity and alternative fuels; clean fuel refueling property; and qualified hybrid vehicles.	Extended in 2004
Legislation Enacted in 1999		
Earned Income Tax Credit	Increased the EITC to 22.5 percent of the Federal credit in 2000 and 25 percent of the Federal credit for subsequent tax years.	2000 and after

Subject	Description	Effective Date
Legislation Enacted in 2000		
Earned Income Tax Credit	Increased the EITC to 30 percent of the Federal credit over a two-year period, beginning in 2002. The expansion first increased the EITC to 27.5 percent of the Federal credit in 2002 and then to 30 percent of the Federal credit in 2003 and after.	2002 and after
Child and Dependent Care Credit	Increased the credit to 110 percent of the Federal credit for those with incomes up to $25,000, phased down from 110 percent to 100 percent for incomes between $25,000 and $40,000, equal to 100 percent for incomes between $40,000 and $50,000, phased down from 100 percent to 20 percent for incomes between $50,000 and $65,000, and equal to 20 percent for incomes greater than $65,000.	2000 and after
Long-Term Care Insurance Credit	Created a long-term care insurance credit equal to 10 percent of a taxpayer's long-term care insurance premium.	2002 and after
Marriage Penalty	Reduced the marriage penalty by increasing the standard deduction for taxpayers who are married filing jointly from $13,000 to $14,600 in three stages.	2001 and after
College Tuition Deduction/Credit	Authorized taxpayers to deduct from FAGI up to $10,000 for attendance at a qualified higher education institution.	2001 and after
Petroleum Tank Credit	Created a two-year personal income tax credit of up to $500 for homeowners who remove and/or replace a residential fuel oil storage tank.	2001 and 2002
Legislation Enacted in 2003		
LLC Fees	Temporarily increased fees for 2003 and 2004.	2003 to 2004
Three-Year Personal Income Tax Surcharge	Created two new tax brackets applicable to taxpayers with incomes over $150,000 and over $500,000.	2003 to 2005
Legislation Enacted in 2004		
Long-Term Care Insurance Credit	Increased the credit for long-term care insurance from 10 percent to 20 percent of premium expense.	2004 and after
Military Pay Exemption	Exempted pay of members of the New York National Guard for services performed in New York as part of the "War on Terror."	2004 and after
Legislation Enacted in 2005		
Nursing Home Assessment Tax Credit	Created a refundable nursing home assessment tax credit for residents of a residential health care facility who directly paid any assessment.	2005 and after
Limited Liability Company Fees	Extended the higher fees to tax years 2005 and 2006.	2005 and 2006
Legislation Enacted in 2006		
STAR	Created a new STAR rebate paid in 2006 and increased NYC STAR credit amounts and indexed the enhanced STAR benefit for the 2006-07 school year. In the event that the enacted State budget does not appropriate moneys to pay STAR rebates authorized in 2006, a refundable personal income tax credit to lower school property taxes takes effect.	2006 and after
Empire State Child Credit	Created a refundable credit for children ages 4-16 which equals the greater of $100 times the number of children qualifying for Federal credit or 33 percent of the Federal credit.	2006 and after
Marriage Penalty	Increased the married filing joint standard deduction from $14,600 to $15,000 in order to eliminate the marriage penalty.	2006 and after
Earned Income Credit	Extended the credit to noncustodial parents who satisfy their child support obligations.	2006 and after; sunsets January 1, 2013
Legislation Enacted in 2007		
Loophole Closers	Required certain Federal S corporations to become New York S corporations if they form New York C corporations to avoid tax and granted the Tax Department authority to disregard personal service or S corporations formed primarily to avoid tax.	2007 and after
STAR	Created a new "middle class rebate" program, increased enhanced rebate amounts and New York City STAR credits.	2007 and after
Legislation Enacted in 2008		

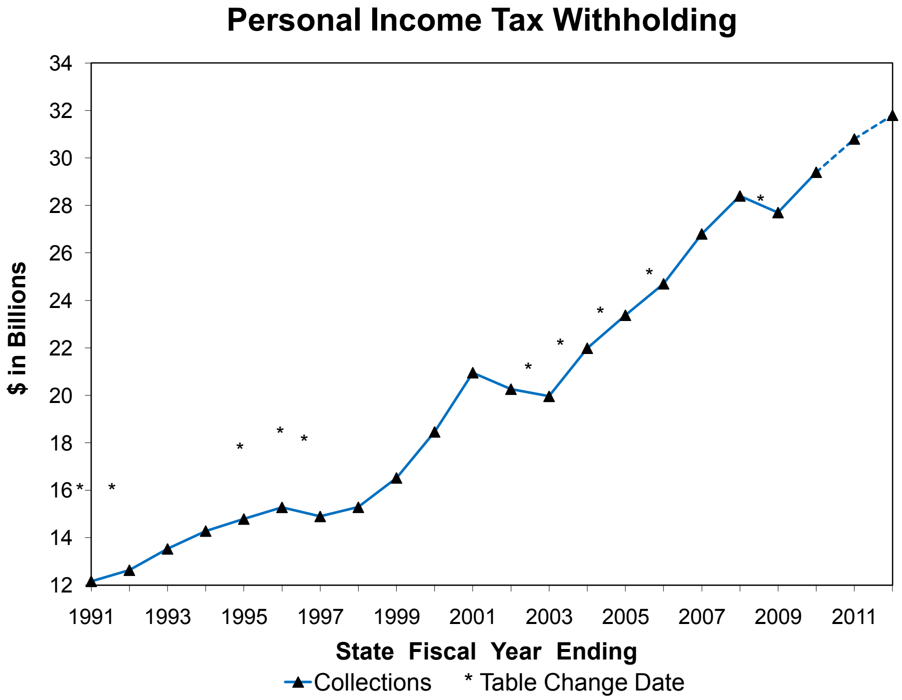
Subject	Description	Effective Date
LLC and other Flow-Through Entity Fees	Restructured and reformed the fees and minimum taxes imposed on limited liability companies, and S and C corporations.	2008 and after
STAR	Delayed scheduled increases in the Basic Middle Class STAR Rebates and NYC PIT credit by one year and scaled down other STAR program components.	2008 and after
Legislation Enacted in 2009		
Non-LLC Partnership Fees	Levied fees on non-LLC partnerships with NY-source income at or above $1 million at the same rates currently applicable to LLC partnerships.	2009 and after
Three Year Temporary Rate Increase	Created two new tax brackets applicable to taxpayers with incomes over $300,000 and over $500,000.	2009 to 2011
Limited Itemized Deduction	Increased the itemized deduction limitation applicable to high income taxpayers from 50 percent to 100 percent except for the deduction for charitable contributions.	2009 and after
STAR	Eliminated Middle Class STAR rebates and reduced corresponding NYC PIT credits.	2009 and after
Empire Zones Reform	Reformed the Empire Zones program. All companies that had been certified for at least three years were subjected to a performance review focusing on cost/benefit ratios.	2008 and after
	The QEZE real property tax credit was reduced by 25 percent and firms were disqualified for the QEZE sales tax refund/credit unless the sale qualified for a refund or credit of the local sales and use tax.	2009 and after
	Moved current program sunset date from December 30, 2011, to June 30, 2010.	
Legislation Enacted in 2010		
Limited Itemized Deduction	Temporarily further limited the use of itemized deductions to 25 percent of Federal deduction for charitable contribution for taxpayers with NYSAGI over $10 million.	2010-2012
Tax Credit Deferral	Capped aggregate business related tax credit claims at $2 million per taxpayer for each of tax years 2010, 2011 and 2012. The total amount of credits deferred can be claimed by affected taxpayers on returns for tax years 2013, 2014 and 2015.	January 1, 2010
Loophole Closers	Required certain S corporation gains to be treated as New York source income by nonresident shareholders, made certain termination payments, covenants not to compete and other compensation for past services taxable to nonresidents, and equalized maximum bio-fuel and QETC facilities, operations and training credit caps for corporations and unincorporated businesses.	2010 and after
Limited High Income NYC STAR Benefit	Limited New York City personal income tax STAR rate reduction credit by eliminating benefits on taxable income in excess of $500,000.	2010 and thereafter

Withholding Changes

Various changes in tax rates, deductions and exemptions have been reflected in withholding tables as follows:

Effective Date	Feature	Changes
10/1/91	Rate Schedule	Changed for taxpayers with annual taxable wages in excess of $90,000 to account for the Federal limitation on itemized deductions and for the State tax table benefit recapture.
7/1/92	Rate Schedule	Changed for taxpayers with annual taxable wages in excess of $150,000 to account for the State tax table benefit recapture.
7/1/95	Deduction Allowance	Increased to $5,650 for single individuals, $6,150 for married couples.
	Rate Schedule	Lowered the maximum rate to 7.59 percent and reduced the number of tax brackets.

Effective Date	Feature	Changes
4/1/96	Deduction Allowance Rate Schedule	Increased to $6,300 for single individuals, $6,800 for married couples. Lowered the maximum rate to 7 percent and broadened the wage brackets to which the rates apply.
1/1/97	Deduction Allowance Rate Schedule	Increased to $6,975 for single individuals, $7,475 for married couples. Lowered the maximum rate to 6.85 percent and broadened the wage brackets to which the rates apply.
7/1/03	Rate Schedule	Raised maximum rate to 8.55 percent and added two new wage brackets.
1/1/04	Rate Schedule	Decreased maximum rate to 7.7 percent and lowered rate for second highest bracket from 7.5 percent to 7.375 percent.
1/1/05	Rate Schedule	Lowered rate for second highest bracket from 7.375 to 7.25 percent.
1/1/06	Rate Schedule	Eliminated top two rates to reflect expiration of the temporary tax surcharge.
5/1/09	Rate Schedule	Raised maximum rate to 8.97 percent and added two new wage brackets; added new higher rate to reflect phase out of itemized deductions.



The above graph shows the history of withholding collections beginning in 1990-91. Asterisks denote the dates of withholding table changes.

Limited Liability Companies

A limited liability company (LLC) can be formed in New York by one or more persons by filing its articles of organization with the Secretary of State and paying an annual filing fee. The fee is reflected in the "returns" component of the personal income tax.

The annual filing fee has been imposed since 1994 and applies to any LLC that has any income, gain, loss or deduction attributable to New York sources in the taxable year. For 2007, the fee was $50 per member, the minimum fee was $325 and the maximum was $10,000. Filing fees for the tax year are due no later than January 30 of the following year. The following table shows historical LLC fees and estimated for

2010-11. Fee amounts were temporarily increased for 2003 through 2006, which explains the higher collections for 2003-04 through 2006-07.

The 2008-09 Enacted Budget restructured the flow-through entity level LLC fees such that the existing LLC fees and corporate franchise tax minimum taxes were replaced with new fees/minimum taxes applicable to all LLC partnerships, C corporations, and S corporations based on New York source income. The 2009-10 Enacted Budget further levied fees on non-LLC partnerships with NY-source income at or above $1 million at the same rates applicable to LLC partnerships.

Limited Liability Company and Partnership Fees (thousands of dollars)

SFY	Amount
1995-96	764
1996-97	3,925
1997-98	7,677
1998-99	12,305
1999-2000	16,680
2000-01	21,267
2001-02	24,869
2002-03	26,517
2003-04	71,419
2004-05	64,104
2005-06	70,755
2006-07	78,036
2007-08	50,973
2008-09	56,219
2009-10	67,469
2010-11 Estimated	70,000

Administration

Timing of the Payment of Refunds

The payment of refunds during the final quarter of the State's fiscal year (i.e., the January-March period) has been managed in accordance with cash flow expectations and to minimize potential year-end imbalances in the State's General Fund. From fiscal years 2000-01 through 2004-05, refunds of $960 million were paid during January through March. The amount of refunds paid during this three-month period was increased to $1,512 million in fiscal year 2005-06 and to $1,500 million for 2006-07 and 2007-08. The refund "cap" was further increased to $1,750 million for 2008-09 to more closely match the estimate of refunds payable during this three-month period. The refund "cap" was reduced to $1,250 million for fiscal year 2009-10 for cash management purposes, but is set to revert to $1,750 million for fiscal year 2010-11.

School Tax Relief Fund

Legislation enacted in 1998 created the School Tax Relief (STAR) program and the STAR Fund. The program provides residential homeowners with State-funded tax exemptions, and tax relief under the New York City (NYC) income tax for all NYC residents. In addition to school property tax exemptions, New York City residents who have relatively low homeownership rates are provided State-funded STAR credits and rate reductions against the New York City personal income tax. To reimburse school districts and New York City for the costs of the program, a portion of State personal income tax receipts are deposited to the STAR Fund. Pursuant to the State Finance Law, payments are currently made to school districts in October, November and December, and to New York City in September and June.

Revenue Bond Tax Fund

Legislation enacted in 2001 authorized the issuance of State Personal Income Tax Revenue Bonds and provided a source of payment for the debt service on those Bonds by earmarking a portion of personal income tax receipts to the newly created Revenue Bond Tax Fund (RBTF). Effective May 2002, such legislation directs the State Comptroller to deposit an amount equal to 25 percent of estimated monthly State personal income tax receipts (after payment of refunds and STAR deposits). Effective April 1, 2007, deposits to the RBTF are calculated before the deposit of income tax receipts to the STAR Fund. Although this decreases General Fund personal income tax receipts, RBTF deposits in excess of debt service requirements are transferred back to the General Fund.

Taxpayer Characteristics

Personal income tax liability and NYSAGI, the income base that determines personal income tax liability, differ noticeably across taxpayer groups. Table 3 examines the changes in NYSAGI and liability over an eight-year span from 2001 to 2008 with a breakdown by taxpayer characteristics. Both NYSAGI and liability showed considerable growth over these years with liability growing 41.2 percent and NYSAGI 38.8 percent higher. While the national economy was in recession in both years, the circumstances for the State were somewhat different. In 2001, the State was not only in a recession that started late in 2000, but also experienced the terror attacks of September 11. In 2008, the State economy did not enter recession until September, much later than the December 2007 start of the most recent national recession.

The share of both returns and liability accounted for by nonresidents continued to trend upward in the period. The nonresident share of returns rose from 9.1 percent in 2001 to 10.6 percent in 2008, while the nonresident liability share rose from 15.8 percent to 16.8 percent. The rising share of liability accounted for by the nonresident filers can be explained by the fact that their liability grew faster than that of resident filers, even as the economy was slowing, thanks to more robust gains in both wage and nonwage income by nonresidents. Resident liability grew 39.6 percent from 2001 to 2008, but nonresident liability grew 49.5 percent over the same period. Wages of resident filers rose 30.0 percent from 2001 to 2008, while nonresident wages increased 37.5 percent. Resident nonwage income, such as dividends, interest received and capital gains, grew 64.2 percent 2001 to 2008, compared to 93.4 percent for the nonresident filers.

TABLE 3
PERCENT SHARES OF STATE AGI, WAGES, NONWAGE INCOME AND LIABILITY
BY VARIOUS TAXPAYER CHARACTERISTICS, 2001 AND 2008
(Values for AGI, wages, nonwage income and liability in millions of dollars)

	2001					2008				
	Returns	NYSAGI	Wages	Nonwage Income	Liability	Returns	NYSAGI	Wages	Nonwage Income	Liability
Total	8,860,413	487,530	376,158	117,034	22,406	9,583,168	676,479	492,900	195,700	31,629
percent change						8.2	38.8	31.0	67.2	41.2
Residents	8,050,171	424,914	323,625	106,265	18,857	8,567,606	583,848	420,642	174,497	26,325
percent share	90.9	87.2	86.0	90.8	84.2	89.4	86.3	85.3	89.2	83.2
percent change						6.4	37.4	30.0	64.2	39.6
Nonresidents	810,242	62,616	52,533	10,770	3,549	1,015,562	92,631	72,258	21,203	5,304
percent share	9.1	12.8	14.0	9.2	15.8	10.6	13.7	14.7	10.8	16.8
percent change						25.3	47.9	37.5	96.9	49.5
Married filing jointly	3,223,345	310,904	232,879	81,384	15,583	3,273,262	428,878	299,023	137,636	21,720
percent share	36.4	63.8	61.9	69.5	69.5	34.2	63.4	60.7	70.3	68.7
percent change						1.5	37.9	28.4	69.1	39.4
Head of Household	1,449,135	42,888	38,433	5,054	840	1,533,753	56,308	50,039	7,382	981
percent share	16.4	8.8	10.2	4.3	3.7	16.0	8.3	10.2	3.8	3.1
percent change						5.8	31.3	30.2	46.1	16.8
Single Filers	4,187,933	133,738	104,846	30,596	5,983	4,776,153	191,293	143,838	50,683	8,928
percent share	47.3	27.4	27.9	26.1	26.7	49.8	28.3	29.2	25.9	28.2
percent change						14.0	43.0	37.2	65.7	49.2
Itemized Deduction	1,933,710	253,061	178,554	76,989	13,302	2,520,544	411,134	267,205	149,813	21,600
percent share	21.8	51.9	47.5	65.8	59.4	26.3	60.8	54.2	76.6	68.3
percent change						30.3	62.5	49.6	94.6	62.4
Standard Deduction	6,926,586	234,461	197,596	40,045	9,104	7,060,299	265,219	225,584	45,873	10,021
percent share	78.2	48.1	52.5	34.2	40.6	73.7	39.2	45.8	23.4	31.7
percent change						1.9	13.1	14.2	14.6	10.1

Source: NYS Department of Taxation and Finance; DOB staff estimates

With respect to filing status, an interesting development is the slow decline in the share of returns from taxpayers filing as "married filing jointly." These taxpayers increased by only 1.5 percent from 2001 to 2008, leading to a decline in the share of taxpayers claiming this status from 36.4 percent to 34.2 percent. Meanwhile, returns filed as "head of household" increased 5.8 percent over the period, and filers claiming single status increased 14.0 percent. Married filing jointly taxpayers account for the bulk of nonwage income, about 70 percent, while single filers account for about 26 percent. Married taxpayers accounted for a somewhat smaller share of liability in 2008 than in 2001, with the single filers' share increasing: in 2001 married filers share was 69.5 percent, slipping to 68.7 percent by 2008, while the share of liability accounted for by single filers rose from 26.7 percent to 28.2 percent during that time.

Taxpayers who itemized their deductions made up 21.8 percent of taxpayers in 2001, rising to 26.3 percent by 2008, largely reflecting the continuing influence of the economic boom of the mid-2000s on incomes, and increases in local property taxes and other itemized deduction categories. In 2001, standard deduction returns accounted for 78.2 percent of all returns and 40.6 percent of liability, while the remaining nearly 22 percent of returns that were itemized accounted for about 60 percent of liability. By 2008, itemizers made up 68.3 percent of liability, while standard deduction takers' share of liability had fallen to 31.7 percent.

Recent Liability History

New York State adjusted gross income, NYSAGI, is the income base that determines personal income tax liability. Table 4 lists the major components, their growth rates and their respective shares of NYSAGI (see also Economic Backdrop – New York State Adjusted Gross Income section). Processing data suggests that NYSAGI declined by 10.8 percent in 2009 following an 8.7 percent decline in 2008, as equity markets and real estate markets tumbled. This decline comes after years of above-average growth in NYSAGI fueled by strong equity and real estate markets following the 2001-2003 recession. With the State and national economies coming out of a long and severe recession, the Division of the Budget predicts steady but less dramatic growth of 5.1 percent in 2010, 4.5 percent in 2011 and 7.0 percent in 2012.

TABLE 4
DISTRIBUTION OF THE MAJOR COMPONENTS OF NEW YORK ADJUSTED GROSS INCOME (NYSAGI)
(millions of dollars)

Component of Income	2004	2005	2006	2007	2008	2009*	2010	2011	2012
	Actual					Estimate			
NYSAGI									
Amount	525,964	571,916	632,601	725,245	662,053	590,308	620,344	647,983	693,049
Percent Change	11.0	8.7	10.6	14.6	(8.7)	(10.8)	5.1	4.5	7.0
Wages									
Amount	397,431	416,988	445,210	485,565	492,900	462,769	481,499	496,890	522,682
Percent Change	6.5	4.9	6.8	9.1	1.5	(6.1)	4.0	3.2	5.2
Share of NYSAGI	75.6	72.9	70.4	67.0	74.5	78.4	77.6	76.7	75.4
Net Capital Gains									
Amount	51,196	64,411	82,412	116,436	53,401	28,678	35,634	39,847	51,984
Percent Change	73.8	25.8	27.9	41.3	(54.1)	(46.3)	24.3	11.8	30.5
Share of NYSAGI	9.7	11.3	13.0	16.1	8.1	4.9	5.7	6.1	7.5
Interest and Dividends									
Amount	22,485	29,673	39,366	48,204	39,205	28,064	29,465	31,061	33,638
Percent Change	(15.2)	32.0	32.7	22.5	(18.7)	(28.4)	5.0	5.4	8.3
Share of NYSAGI	4.3	5.2	6.2	6.6	5.9	4.8	4.7	4.8	4.9
Taxable Pension									
Amount	26,432	28,974	30,257	31,216	31,070	32,805	33,852	35,131	36,553
Percent Change	5.2	9.6	4.4	3.2	(0.5)	5.6	3.2	3.8	4.0
Share of NYSAGI	5.0	5.1	4.8	4.3	4.7	5.6	5.5	5.4	5.3
Net Business and Partnership Income									
Amount	53,686	60,718	67,249	74,345	73,560	70,118	73,506	80,228	88,396
Percent Change	18.8	13.1	10.8	10.6	(1.1)	(4.7)	4.8	9.1	10.2
Share of NYSAGI	10.2	10.6	10.6	10.3	11.1	11.9	11.8	12.4	12.8
All Other Incomes/ Adjustments /1									
Amount	(25,266)	(28,849)	(31,894)	(30,521)	(28,083)	(32,127)	(33,612)	(35,173)	(40,205)
Percent Change	(2.1)	14.2	10.6	(4.3)	(8.0)	14.4	4.6	4.6	14.3

* Estimates for 2009 are based on processing data.

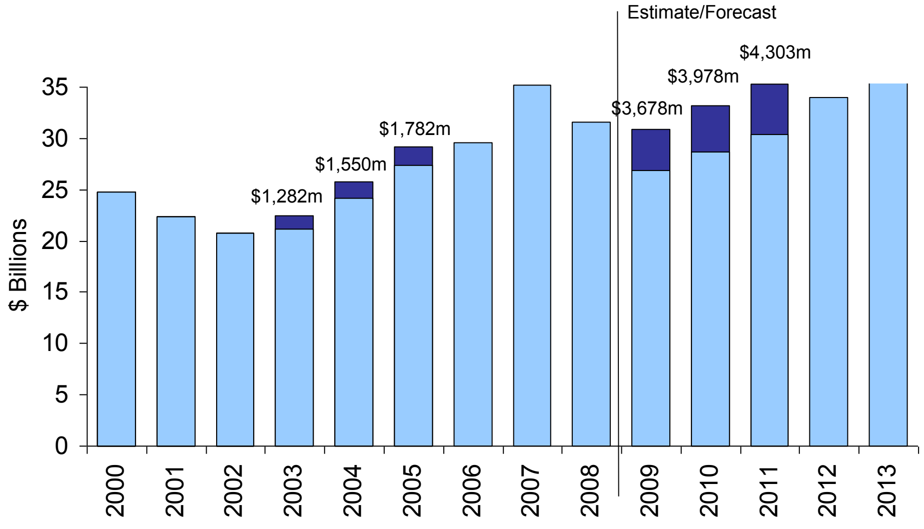
/1 includes alimony received, unemployment income, IRA income, and other incomes. This number is negative due to Federal and New York adjustments to income, which together reduce final NYSAGI.

Source: NYS Department of Taxation and Finance; DOB staff estimates.

The declines in 2008 and 2009 are characterized by substantial drops in capital gains' share of total taxable income from 16.1 percent in 2007 to an estimated 4.9 percent in 2009. Though wages also fell in 2009, the drop was smaller than the declines in some of the other components and, as a result, the share of wage income increased from 67.0 percent in 2007 to an estimated 78.4 percent in 2009.

Changes in the timing of year-end bonus payments also affect the NYSAGI growth rate. It is estimated that bonuses in the financial and insurance sector represent more than half of the total bonuses paid out each year. Beginning in 1994-95, the pattern of the financial and insurance sector bonus payments has shifted from approximately 40 percent paid at the end of the calendar year, and 60 percent paid early in the following year, to 30 percent and 70 percent, respectively.

Total Liability 2000-2013



Note: Values above bars indicate the amount of additional liability due to temporary brackets and rates for those tax years. "Current law" for 2006-2013 includes changes in State and federal tax law that are effective with the 2006 tax year and beyond.
Source: New York State Department of Taxation and Finance; DOB staff estimates.

The State's recent recession is clearly reflected in the State tax liability. Based on preliminary processing data, total liability was about $30.9 billion in 2009, down 2.4 percent from the $31.6 billion in 2008. This follows a decline in liability of 10.2 percent in 2008 from its 2007 peak. The decline in liability is considerable smaller than that of NYSAGI because of the temporary new tax brackets and rates and itemized deduction limitation that are estimated to have added $4.0 billion to 2009 tax liability. Without the temporary tax law changes, liability in 2009 would have fallen by 15.2 percent. The expiration of the temporary tax brackets and rates for the 2012 liability year will result in a 3.9 percent decrease in liability despite an expected 7.0 percent increase in NYSAGI.

TABLE 5
LIABILITY AND EFFECTIVE TAX RATES*
Current Law
1999 - 2012
(millions of dollars)

	NYSAGI		Liability		Effective
	Amount	Growth Rate	Amount	Growth Rate	Tax Rate (percent)
1999	448,531	8.6	20,977	10.5	4.68
2000	508,934	13.5	24,494	16.8	4.81
2001	481,001	(5.5)	22,406	(8.5)	4.66
2002	459,919	(4.4)	20,729	(7.5)	4.51
2003	473,778	3.0	22,456	8.3	4.74
2004	525,964	11.0	25,769	14.8	4.90
2005	571,916	8.7	28,484	10.5	4.98
2006	632,601	10.6	29,838	4.8	4.72
2007	725,245	14.6	35,215	18.0	4.86
2008	662,053	(8.7)	31,621	(10.2)	4.78
2009**	590,308	(6.7)	30,867	(2.4)	5.23
2010**	620,344	5.1	33,199	7.6	5.35
2011**	647,983	4.5	35,336	6.4	5.45
2012**	693,049	7.0	33,948	(3.9)	4.90

* Liability divided by AGI.
** Estimate/Forecast
Source: NYS Department of Taxation and Finance; DOB staff estimates.

Risks to the Liability Forecast

The collapse of the financial markets and the resulting large declines in income from bonus payments and capital gains in 2001 and 2002 caused the share of liability originating with the top one percent of taxpayers to fall from 39.0 percent in 2000 to 32.2 percent in 2002 (see Table 7). Over time the State has become increasingly reliant on its high-income taxpayers as a source of income tax revenues. Note that even following the expiration of the 2003-2005 temporary tax brackets, the share of liability coming from the top one percent of taxpayers grew from 39.0 percent in 2006 to 43.1 percent in 2007. With the economic downturn, their share is estimated to have fallen to 35.5 percent by 2009, on a constant law basis. However, because the 2009 tax law change falls heavily on the highest income groups, the share of liability accounted for by the top one percent of taxpayers is estimated to have risen to 42.2 percent in 2009 and to rise further to 42.9 percent by 2011. This implies that changes in the economy that affect a small number of taxpayers in the high-income group can have disproportionately large effects on State tax revenues.

TABLE 6
PERCENT DISTRIBUTION OF RETURNS, LIABILITY AND AGI BY INCOME GROUPS UNDER CURRENT LAW

	2008 (Actual)			2011 (Forecast)		
Income Group	**Returns**	**Liability**	**AGI**	**Returns**	**Liability**	**AGI**
0 - $50,000	66.7	4.6	17.5	65.7	3.8	17.4
$50,000 - $100,000	19.6	17.2	19.7	19.7	15.7	20.2
$100,000 - $200,000	9.6	20.3	18.3	10.6	19.4	20.2
$200,000 - $1,000,000	3.7	24.3	19.1	3.6	23.7	18.6
$1,000,000 and above	0.5	33.6	25.4	0.5	37.4	23.6

Source: NYS Department of Taxation and Finance; DOB Staff estimates.

The collapse of the financial markets and the resulting large declines in income from bonus payments and capital gains in 2001 and 2002 caused the share of liability originating with the top one percent of taxpayers to fall from 39.0 percent in 2000 to 32.2 percent in 2002 (see Table 7). Over time the State has become increasingly reliant on its high-income taxpayers as a source of income tax revenues. Note that even following the expiration of the 2003-2005 temporary tax brackets, the share of liability coming from the top one percent of taxpayers grew from 39.0 percent in 2006 to 43.1 percent in 2007. With the economic downturn, their share is estimated to have fallen to 35.5 percent by 2009, on a constant law basis. However, because the 2009 tax law change falls heavily in the highest income groups, the share of liability from the top one percent of taxpayers is estimated to have risen to 42.2 percent in 2009, and rising further to 42.9 percent by 2011. This means changes in the economy that affect a small number of taxpayers in the high-income group can have disproportionate effects on State tax revenues.

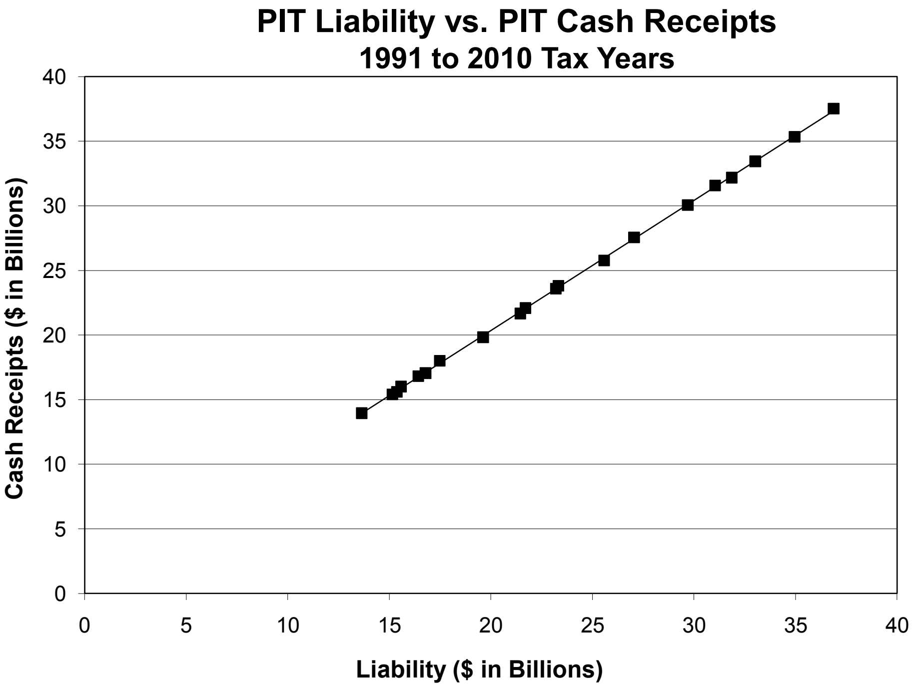
TABLE 7
CHANGES IN THE SHARE OF LIABILITY ORIGINATING WITH
THE TOP ONE PERCENT OF NYS TAXPAYERS

	1995-2002, 2006-08 Tax Law			2003-05, 2009-11 Brackets and Rates		
Year	Liability, top 1 Percent (millions)	Liability, all taxpayers (millions)	Share of total liability, top 1 (Percent)	Liability, top 1 Percent (millions)	Liability, all taxpayers (millions)	Share of total liability, top 1 (Percent)
1998	6,654	18,986	35.0	--	--	--
1999	7,462	20,977	35.6	--	--	--
2000	9,644	24,733	39.0	--	--	--
2001	7,864	22,406	35.1	--	--	--
2002	6,681	20,731	32.2	--	--	--
2003	7,146	21,173	33.8	8,079	22,456	36.0
2004	8,487	24,218	35.0	9,607	25,769	37.3
2005	9,794	26,741	36.6	11,093	28,484	38.9
2006	11,539	29,605	39.0	--	--	--
2007	15,195	35,215	43.1	--	--	--
2008	11,890	31,621	37.6	--	--	--
2009*	9,511	26,827	35.5	13,026	30,867	42.2
2010*	10,169	28,632	35.5	14,121	33,199	42.5
2011*	10,879	30,352	35.8	15,150	35,336	42.9
2012*	12,890	33,948	38.0	--	--	--

* Estimated
Note: The 2003-2005 surcharges expired at the end of the 2005 tax year.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

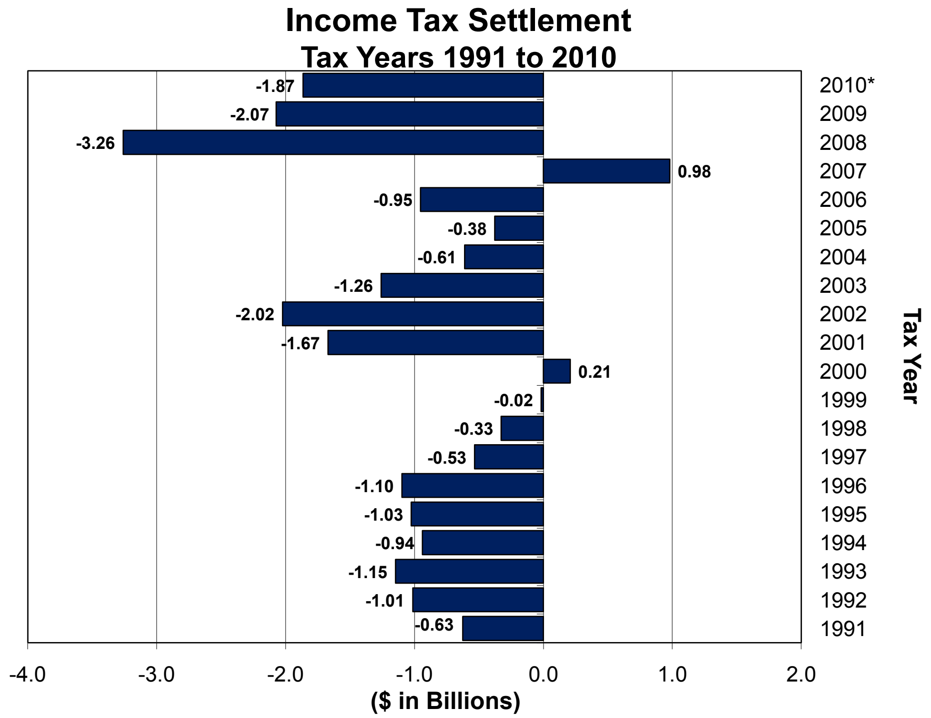
TAX LIABILITY AND CASH PAYMENTS

Although significant risks necessarily remain in any estimates of income tax liability, the estimation of the level of tax liability for a particular tax year leads, with a high degree of confidence, to the approximate level of cash receipts that can be expected for the particular tax year. The consistency in this relationship is shown in the graph below, which shows a trend line for the history of liability and cash receipts beginning in 1990, and dots to denote actual liability and cash results or estimates.



Despite the strong relationship between tax-year liability and cash receipts, estimation of cash payments is subject to an important complication that pervades forecasts for the Executive Budget and other State Financial Plan updates. This complication is determining the portions of tax-year liability that will occur in particular State fiscal years. Income tax prepayments – withholding tax and quarterly estimated tax payments – tend to be received not long after income is earned. For example, most withholding tax payments and quarterly estimated tax payments for the 2010 tax year will be received before the end of the 2010-11 State fiscal year. Settlement payments – those payments received when taxpayers file final returns for a tax year – tend to be received in the next State fiscal year after the end of a tax year. Thus, settlement payments for the 2009 tax year will be received largely in the 2010-11 fiscal year.

As is evident in the graph below showing net settlement payments for the 1991 through 2010 tax years, the amount of liability received in the settlement can vary widely from year to year. In most years, the net settlement has been very negative, with State settlement outlays (such as refunds and offsets) far exceeding taxpayer settlement payments (such as those sent with returns and extension requests). There have been some important exceptions to this pattern – most notably during times of tax reform and rapid economic growth, and during periods with large increases in non-wage income.



* Projection

Several different settlement patterns have occurred in recent years. With the rapid growth of the New York economy in the late 1990s, the settlement became much less negative than it traditionally had been. This pattern resulted generally from prepayment growth rates that fell short of liability growth rates, leading to the need for increased settlement payments with final returns. With the weak economy of 2001 and 2002, taxpayers, in aggregate, dramatically reduced their settlement payments and the total settlement became very negative again, with the net amount paid out by the State exceeding $2 billion for the 2002 tax year. Due to the temporary tax increases enacted by the Legislature in 2003, the net settlement payout by the State was negative by about $610 million for the 2004 tax year and only $380 million for tax year 2005. However, the 2006 settlement was negative by $950 million, due mainly to refund claims for the new child credit. Due to strength of the 2007 tax year, the 2007 settlement was highly positive at $980 million. However, due to the recessionary economic environment, the 2008 settlement returned to a negative $3.26 billion, while the 2009 settlement was a significantly less negative $2.07 billion. The 2010 settlement is projected to be an even smaller negative $1.87 billion. The 2009 and 2010 settlements include payments attributed to the 2009 rate increase that are not reflected in prepayments.

For tax years 2009, 2010 and 2011, New York temporarily added two new tax rates: 7.85 percent on taxable income over $300,000 for married joint filers (lower level for others) and 8.97 percent on taxable income over $500,000 for all filers. Further, laws enacted in 2009 completely disallowed the use of itemized deductions (except for charitable contributions) for taxpayers with NYSAGI over $1 million. For tax years 2010 and 2011, the itemized deduction for charitable contributions has been further reduced from 50 percent to 25 percent for taxpayers with NYSAGI over $10 million. These high income provisions affect both the liability and cash estimates and projections for the four fiscal years starting in 2009-10. Table 8 summarizes the impact of the surcharge and limitations on itemized deductions for both tax liability and associated collections.

Table 8
2009 and 2010 HIGH INCOME TAX PROVISIONS
TAX YEAR AND FISCAL YEAR ESTIMATES - CURRENT LAW
(millions of dollars)

	Fiscal Year				
Tax Year	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**Liability Totals**
2009					
Withholding	1,157	0	0	0	
Estimated Tax	1,657	0	0	0	
Settlement	0	1,224	0	0	
Subtotal	2,816	1,224	0	0	4,040
2010					
Withholding	1,251	1,244	0	0	
Estimated Tax	0	1,747	0	0	
Settlement	0	0	325	0	
Subtotal	1,251	2,991	325	0	4,567
2011					
Withholding	0	1,051	1,424	0	
Estimated Tax	0	0	2,109	0	
Settlement	0	0	0	400	
Subtotal	0	1,051	3,533	400	4,984
Total	4,067	5,266	3,858	400	13,591

For a more detailed discussion of the methods and models used to develop estimates and projections for the personal income tax, please see the *Economic, Revenue and Spending Methodologies* at www.budget.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2010-11 Estimates

All Funds collections through December are approximately $24,431 million, an increase of $1,096 million, or 4.7 percent above the comparable period in the prior fiscal year. This increase to date is primarily the result of gradual improvement in the economy and full year compliance with the temporary rate increase. To date withholding collections have also increased 5.5 percent compared to the same period in 2009-10.

All Funds receipts for 2010-11 are estimated to be $35,899 million, an increase of $1,148 million, or 3.3 percent above the last year. This is primarily attributable to increases in withholding of $1.3 billion and estimated payments of $723 million. These increases are due to gradual improvement in the economy and full year compliance with the temporary rate increase.

Table 9 shows receipts by the component of the personal income tax from 2007-08 through 2011-12.

TABLE 9
FISCAL YEAR COLLECTION COMPONENTS
ALL FUNDS
(millions of dollars)

	2007-08 (Actual)	2008-09 (Actual)	2009-10 (Actual)	2010-11 (Estimated)	2011-12 (Projected)
Receipts					
Withholding	28,440	27,686	29,443	30,776	31,802
Estimated Payments	11,640	12,690	9,028	9,751	10,925
Current Year	8,592	7,889	6,938	7,344	8,180
Prior Year*	3,048	4,801	2,090	2,407	2,745
Final Returns	2,167	2,686	1,822	1,967	2,190
Current Year	206	192	206	218	207
Prior Year*	1,961	2,494	1,616	1,749	1,983
Delinquent Collections	923	949	1,100	1,091	1,104
Gross Receipts	43,170	44,011	41,393	43,585	46,021
Refunds					
Prior Year*	4,286	4,544	4,986	5,149	4,894
Previous Years	341	402	468	739	819
Current Year*	1,500	1,750	1,250	1,750	1,750
State-City Offset*	479	475	(-61.9)	48	48
Total Refunds	6,606	7,171	6,642	7,686	7,512
Net Receipts	36,564	36,840	34,751	35,899	38,509

* These components, collectively, are known as the "settlement" on the prior year's tax liability.

The primary risk to the 2010-11 receipts estimate results from the amount and timing of bonus payments paid by financial services companies. A large portion of financial sector bonuses are typically paid in the first quarter of the calendar year. Consequently, complete information about such payments is not available when Executive Budget estimates are constructed. The forecast assumes a 20.2 percent increase in capital gains for tax year 2010. Likewise, the forecast also assumes a 2.6 percent increase in withholding during the first calendar quarter of 2011, to attain the 4.5 percent annual estimated increase in withholding for 2010-11.

Total refunds are expected to increase by $1,044 million (15.7 percent) above 2009-10. This increase reflects the shift of $500 million of tax year 2009 refunds from March 2010 to April 2010 plus a one-time decline in 2009-10 refunds associated with the state-city offset accounting adjustments. Prior year refunds for tax year 2009, which increased by $271 million, also contributed to higher 2010-11 refunds.

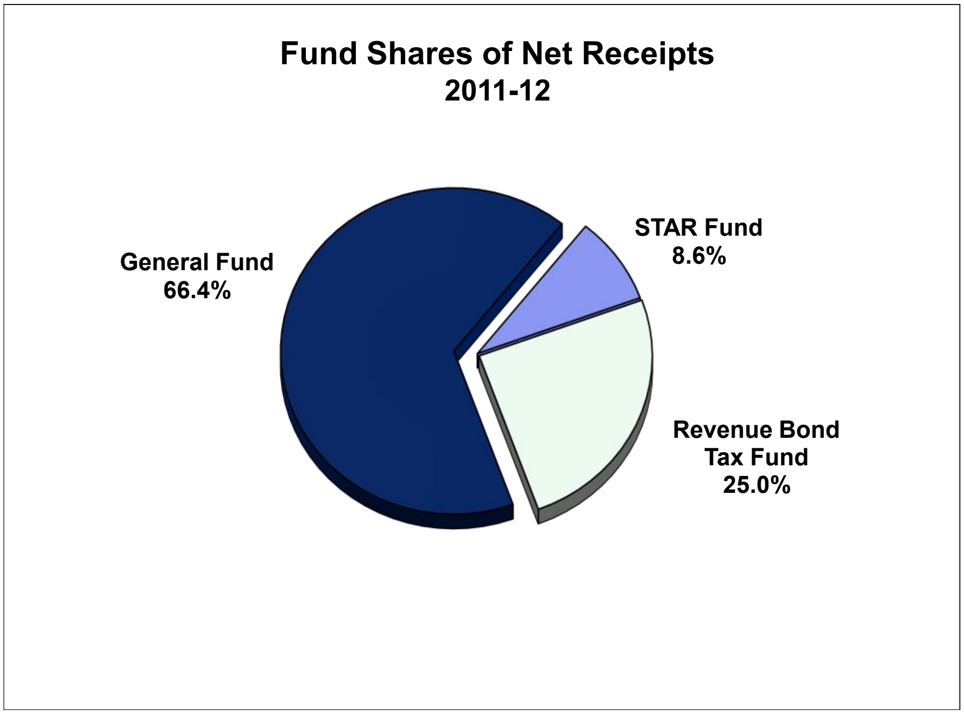
2011-12 Projections

All Funds receipts are projected to be $38,509 million, an increase of $2,610 million, or 7.3 percent above 2010-11.

Withholding receipts are projected to increase by 3.3 percent primarily reflecting modest wage growth of 4.2 percent suppressed by the expiration of the temporary rate increase at the end of December 2011. The other major component of collections, current estimated payments on 2011 income, are projected to grow 11.4 percent, which in part reflects expected improvements in the financial market and the overall economy.

Extension and final payments related to 2010 returns are expected to increase by $572 million (13.8 percent) from 2009.

Total refunds for 2011-12 are projected to decrease by $174.5 million (2.3 percent). This decrease largely reflects a higher base due to the shift of the $500 million of fiscal year 2009-10 refunds into fiscal year 2010-11.



General Fund

General Fund net personal income tax receipts are estimated to be $23,624 million in 2010-11 and are projected to be $25,589 million in 2011-12, a 8.3 percent increase above 2010-11.

Other Funds

In 2010-11 and 2011-12, respectively, dedicated personal income tax receipts of $3,300 million and $3,293 million will be deposited into the School Tax Relief Fund.

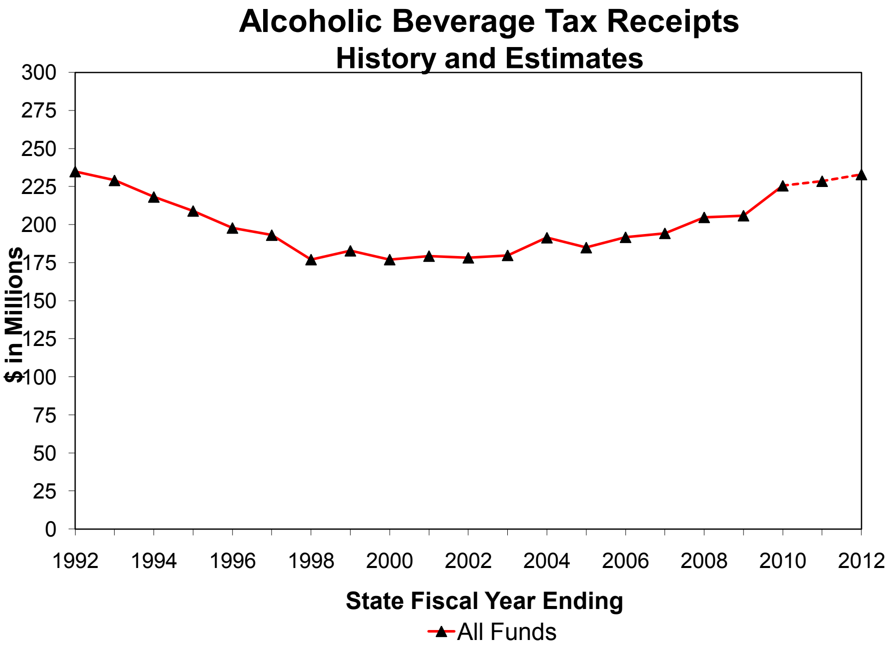
In 2010-11and 2011-12, respectively, dedicated receipts of $8,975 million and $9,627 million will be deposited into the Revenue Bond Tax Fund (RBTF). This increase reflects the growth in net income tax collections upon which the RBTF is based.

ALCOHOLIC BEVERAGE TAXES

ALCOHOLIC BEVERAGE TAXES
(millions of dollars)

	2009-10 Actual	2010-11 Estimated	Change	Percent Change	2011-12 Projected	Change	Percent Change
General Fund	225.6	228.0	2.4	1.1	233.0	5.0	2.2
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	225.6	228.0	2.4	1.1	233.0	5.0	2.2

Note: Totals may differ due to rounding.



ALCOHOLIC BEVERAGE TAXES BY FUND
(thousands of dollars)

	Gross General Fund	Refunds	General Fund	All Funds Receipts
2001-02	178,146	1	178,145	178,145
2002-03	180,686	931	179,755	179,755
2003-04	191,380	23	191,357	191,357
2004-05	184,955	68	184,887	184,887
2005-06	191,696	22	191,674	191,674
2006-07	194,379	83	194,296	194,296
2007-08	205,375	546	204,829	204,829
2008-09	205,913	5	205,908	205,908
2009-10	225,647	87	225,560	225,560
Estimated				
2010-11	228,100	100	228,000	228,000
2011-12				
Current law	233,100	100	233,000	233,000
Proposed law	233,100	100	233,000	233,000

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

Tax Base and Rate

New York State imposes excise taxes at various rates on liquor, beer, wine and specialty beverages.

STATE TAX RATES (dollars per unit of measure)		
Liquor over 24 percent alcohol	1.70	per liter
All other liquor with more than 2 percent alcohol	0.67	per liter
Liquor with not more than 2 percent alcohol	0.01	per liter
Naturally sparkling wine	0.30	per gallon
Artificially carbonated sparkling wine	0.30	per gallon
Still wine	0.30	per gallon
Beer with 0.5 percent or more alcohol	0.14	per gallon
Cider with more than 3.2 percent alcohol	0.04	per gallon

Administration

The tax is remitted by licensed distributors and noncommercial importers of such beverages in the month following the month of delivery.

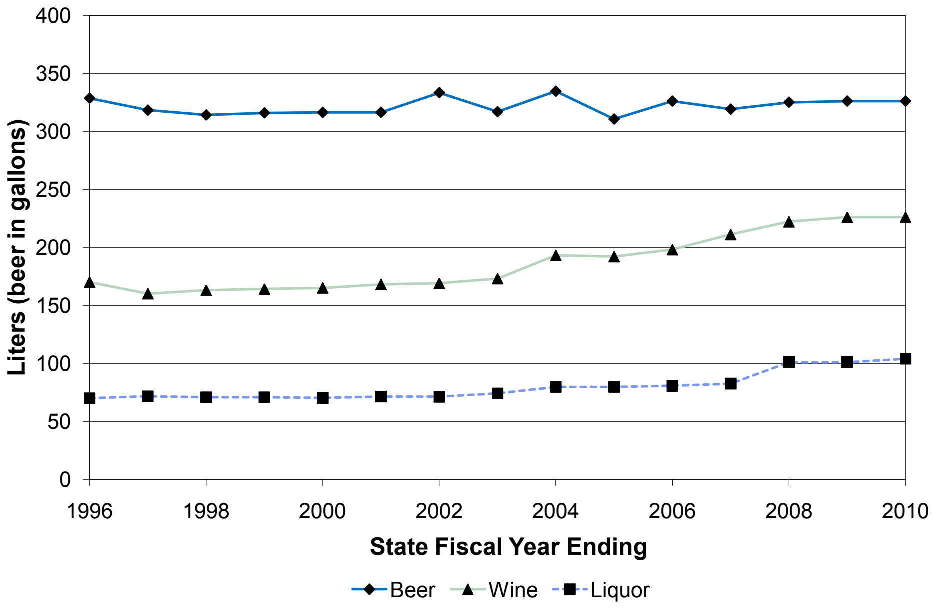
Significant Legislation

The significant statutory changes to this tax source are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1989		
Various Tax Increases	Increased the State excise tax rate on: beer with at least 0.5 percent alcohol from 5.5 cents to 11 cents per gallon; liquor with at least 24 percent alcohol from $1.08 to $1.40 per liter; liquor with between 2 and 24 percent alcohol from 26.4 cents to 55 cents per liter; wine from 3.2 cents to 5 cents per liter; and cider with at least 3.2 percent alcohol from 0.4 cents to 1 cent per liter.	May 1, 1989
Legislation Enacted in 1991		
Various Tax Increases	Increased the State excise tax rate on: beer with at least 0.5 percent alcohol from 11 cents to 21 cents per gallon; liquor with at least 24 percent alcohol from $1.40 to $1.70 per liter; and liquor with between 2 and 24 percent alcohol from 55 cents to 66.8 cents per liter.	June 1, 1991
Legislation Enacted in 1995		
Beer Tax Cut	Reduced the State excise tax rate on beer with at least 0.5 percent alcohol from 21 cents to 16 cents per gallon.	January 1, 1996
Legislation Enacted in 1998		
Beer Tax Cut	Reduced the State excise tax rate on beer with at least 0.5 percent alcohol from 16 cents to 13.5 cents per gallon.	January 1, 1999
Legislation Enacted in 1999		
Beer Tax Cut	Reduced the State excise tax rate on beer with at least 0.5 percent alcohol from 13.5 cents to 12.5 cents per gallon.	April 1, 2001
Exemption	Increased the small brewers' tax exemption from the first 100,000 barrels of domestically brewed beer to 200,000 barrels.	April 1, 2001
Legislation Enacted in 2000		

Subject	Description	Effective Date
Exemption	Accelerated the small brewers exemption increase by moving the effective date from April 1, 2001, to January 1, 2000.	January 1, 2000
Beer Tax Cut	Reduced the State excise tax rate on beer with at least 0.5 percent alcohol from 12.5 cents to 11 cents per gallon.	September 1, 2003
Legislation Enacted in 2007		
Auction Licenses	Authorized the sale of privately held liquors to persons licensed by the State Liquor Authority to conduct auctions.	October 15, 2007
Legislation Enacted in 2008		
Seven Day Sales	Authorization made permanent.	April 1, 2008
Enforcement Provisions	Various enforcement and penalty provisions made permanent.	October 31, 2009
Legislation Enacted in 2009		
Beer Tax Increase	Rate increased from 11 cents per gallon to 14 cents per gallon.	May 1, 2009
Wine Tax Increase	Rate increased from 19 cents per gallon to 30 cents per gallon.	May 1, 2009
Enforcement Provisions	New third party reporting requirements imposed.	May 1, 2009

Consumption of Alcoholic Beverages



TAX LIABILITY

Overall, per capita consumption of taxed beverages and receipts has remained fairly constant in recent years, with declines in one beverage class being offset with increases in others due to shifts in consumer preferences. For example, wine and liquor consumption in recent years has increased relative to beer consumption. Due to the economic downturn, price conscious consumers have shifted consumption to lower priced beverages but have increased consumption.[*]

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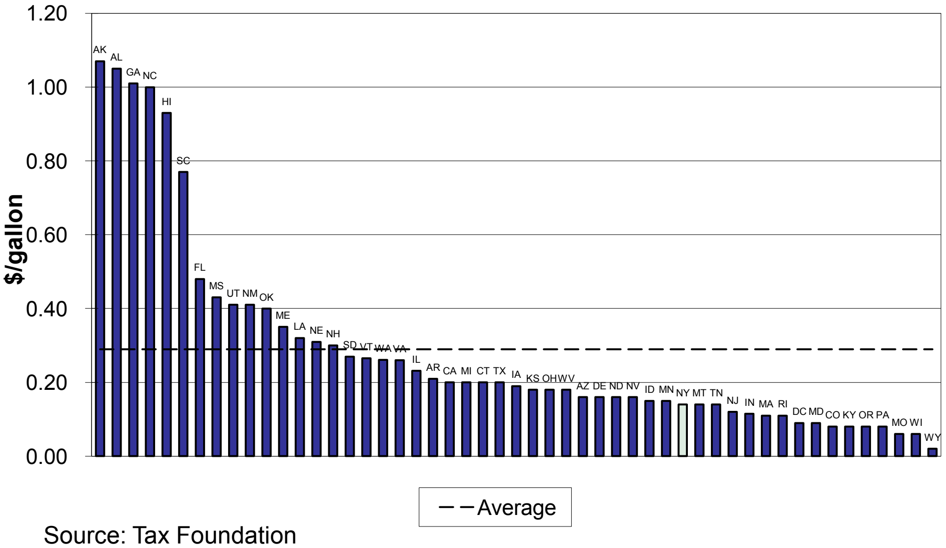
[*] Source: National Public Radio

Other States

Compared with the alcohol tax rates in the other states in the nation, New York State currently has:

- The fourteenth lowest beer tax;
- The sixth lowest wine tax (of those participating states[†]); and
- The fourth highest liquor tax (of those participating states[‡]).

Beer Tax Rates by State
(February 2010)

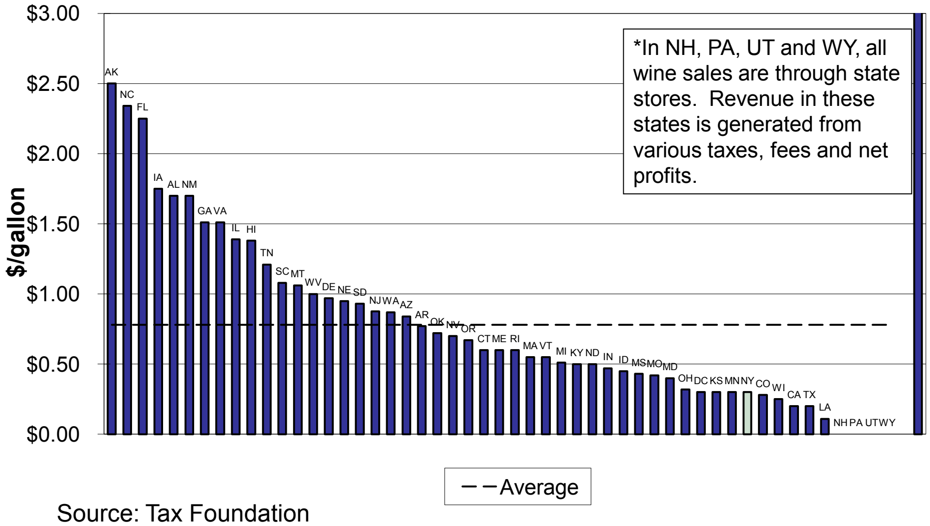


Source: Tax Foundation

[†] In NH, PA, UT, and WY, all wine sales are through state stores. Revenue in these states is generated from various taxes, fees, and net profits.

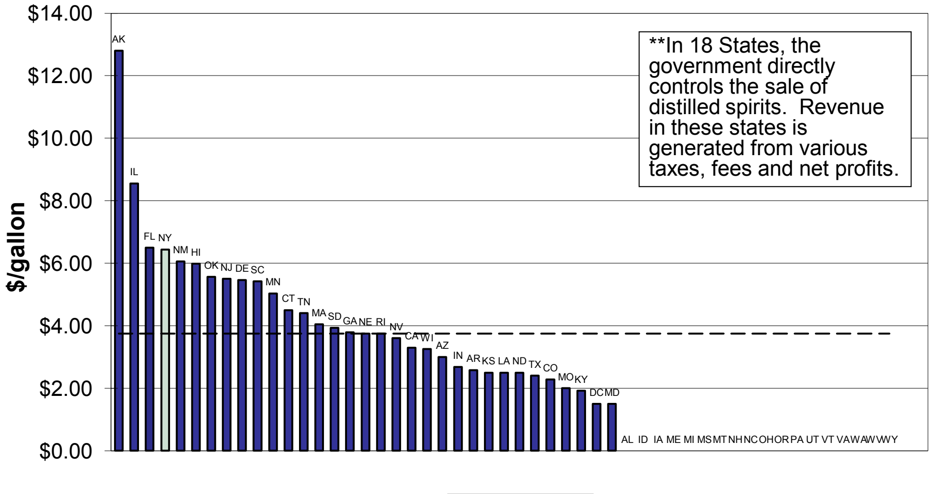
[‡] In 18 states, the government directly controls the sale of distilled spirits. Revenue in these states is generated from various taxes, fees, and net profits.

Wine Tax Rates by State
(February 2010)



Source: Tax Foundation

Liquor Tax Rates by State
(February 2010)



Source: Tax Foundation

The New York State tax on liquor is relatively high compared to other forms of alcohol and to other states. The State continues to suffer tax avoidance and evasion due to the bootlegging of liquor from other states. Enforcement legislation enacted in 1993 added registration, invoice and manifest requirements, as well as seizure and forfeiture provisions. Additionally, the legislation provided higher fines for the bootlegging of varying volumes of liquor. These alcoholic beverage enforcement provisions have provided some protection to the State's liquor industry and tax base, thereby moderating year-over-year declines in State alcoholic beverage tax receipts. Other provisions were extended on a number of occasions and were made permanent in 2008. In 2009, new third party reporting requirements were imposed on wholesales. It is expected that retailers will have an increased incentive to fully report sales.

For a more detailed discussion of the methods and models used to develop estimates and projections for the alcohol beverage taxes, please see the *Economic, Revenue and Spending Methodologies* at www.budget.state.ny.us.

ALCOHOLIC BEVERAGE TAX ENFORCEMENT PROVISIONS

Violations	Volume	Penalties
Import liquor without registration		Class A misdemeanor
Produce, distill, manufacture, compound, mix or ferment liquors without registration or tax payments		Class A misdemeanor
Cause liquor covered by a warehouse receipt to be removed from a warehouse		Class A misdemeanor
Three or more above violations in a five-year period		Class E felony
Import liquor without registration	More than 360 liters within one year	Class E felony
Produce, distill, manufacture, compound, mix or ferment liquors without registration or tax payments	More than 360 liters within one year	Class E felony
Cause liquor covered by a warehouse receipt to be removed from a warehouse	More than 360 liters within one year	Class E felony
Custody, possession or control of liquor without registration or tax payments		Class B misdemeanor
Custody, possession or control of liquor without registration or tax payments	Exceeds 360 liters	Class E felony
Import liquor without registration	More than 90 liters	Seize transportation vehicles and liquor.
Distribute or hold liquor for sale without paying alcoholic beverage taxes	More than 90 liters	Seize transportation vehicles and liquor.
Failure by a distributor to pay the tax		10 percent of the tax amount due, plus 1 percent each month after the expiration. The penalty shall not be less than $100 but shall not exceed 30 percent in aggregate.
Failure by any other person to pay the tax		50 percent of the tax amount due, plus 1 percent each month after the expiration. The penalty shall not be less than $100.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2010-11 Estimates

All Funds collections through December are $174.9 million, an increase of $3.3 million, or 1.9 percent above the comparable in the prior fiscal last year.

All Funds receipts for 2010-11 are estimated to be $228 million, an increase of $2.4 million, or 1.1 percent above last year.

Of the total estimated receipts, $165 million is projected to be derived from liquor, $45 million from beer and $18 million from wine and other taxed beverages.

COMPONENTS OF ALCOHOLIC BEVERAGE TAXES RECEIPTS
(millions of dollars)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11 Estimated	2011-12 Projected
Beer	36	37	38	36	44	45	48
Liquor	145	147	154	159	163	165	167
Wine & Other	11	12	13	11	17	18	18
Total	192	196	205	206	224	228	233

2011-12 Projections

All Funds receipts are projected to be $233.0 million, an increase of $5 million, or 2.2 percent above 2010-11.

Based on recent trends, the consumption of both beer and liquor is expected to grow modestly.

Of the total projected alcoholic beverage tax receipts, $167 million is projected to be derived from liquor, $48 million from beer, and $18 million from wine and other specialty beverages.

General Fund

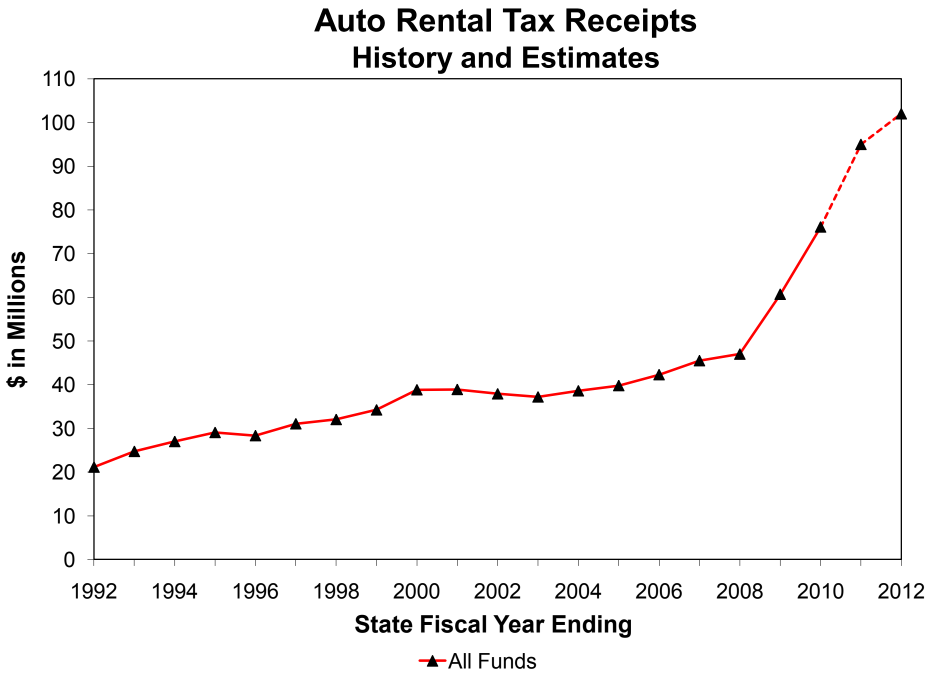
Currently, all receipts from the alcoholic beverage tax are deposited in the General Fund.

AUTO RENTAL TAX

AUTO RENTAL TAX
(millions of dollars)

	2009-10 Actual	2010-11 Estimated	Change	Percent Change	2011-12 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	76.1	95.0	18.9	24.8	102.0	7.0	7.4
All Funds	76.1	95.0	18.9	24.8	102.0	7.0	7.4

Note: Totals may differ due to rounding.



AUTO RENTAL TAX BY FUND
(thousands of dollars)

	General Fund	Capital Project Funds[1]	Special Revenue Funds[2]	All Fund Receipts
2001-02	37,914	0	0	0
2002-03	0	37,191	0	37,191
2003-04	0	38,593	0	38,593
2004-05	0	39,824	0	39,824
2005-06	0	42,303	0	42,303
2006-07	0	45,500	0	45,500
2007-08	0	46,973	0	46,973
2008-09	0	60,702	0	60,702
2009-10	0	51,726	24,382	76,108
Estimated				
2010-11	0	60,000	35,000	95,000
2011-12	0	65,000	37,000	102,000

[1] Dedicated Highway and Bridge Trust Fund.
[2] MTA Aid Trust Account.

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

Tax Base and Rate

On June 1, 1990, the State imposed a 5 percent tax on charges for the rental or use in New York State of a passenger car with a gross vehicle weight of 9,000 pounds or less. The rate was increased to 6 percent on June 1, 2009. In addition, on June 1, 2009, a supplemental tax at the rate of 5 percent was imposed on the receipts from the rental of a passenger car within the Metropolitan Commuter Transportation District (MCTD). For more information, please see the Metropolitan Transportation Authority (MTA) Financial Assistance Fund Receipts Section.

The auto rental tax applies to a vehicle rented by a resident or a nonresident, regardless of where the vehicle is registered. The tax does not apply to a car lease covering a period of one year or more.

Administration

The auto rental tax is remitted quarterly by the vendor on the vendor's sales tax return to the Department of Taxation and Finance.

TAX LIABILITY

Receipts from the auto rental tax are influenced by the overall health of the economy, particularly consumer and business spending on travel. Unusual events that affect travel have had a significant influence on receipts.

For a more detailed discussion of the methods and models used to develop estimates and projections for the auto rental tax, please see the *Economic, Revenue and Spending Methodologies* at www.budget.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2010-11 Estimates

All Funds collections through December are $74.2 million, an increase of $18.3 million, or 32.7 percent above the comparable period in the prior fiscal year. Absent the MCTD supplemental tax, auto tax receipts would have increased $8.6 million, or 22.5 percent.

All Funds receipts for 2010-11 are estimated to be $95 million, an increase of $18.9 million, or 24.8 percent above last year. This includes an estimated $35 million from the supplemental tax on passenger car rentals in the MCTD. Absent the supplemental tax, auto rental tax receipts are estimated to increase by $8.3 million, or 16 percent.

2011-12 Projections

All Funds receipts are projected to be $102 million, an increase of $7 million, or 7.4 percent above 2010-11. This increase reflects projected growth in the national consumption of motor vehicle rental services.

General Fund

Since April 1, 2002, no auto rental tax receipts have been deposited in the General Fund.

Other Funds

Legislation enacted in 2002 dedicated all receipts from the auto rental tax to the Dedicated Highway and Bridge Trust Fund, effective April 1, 2002.

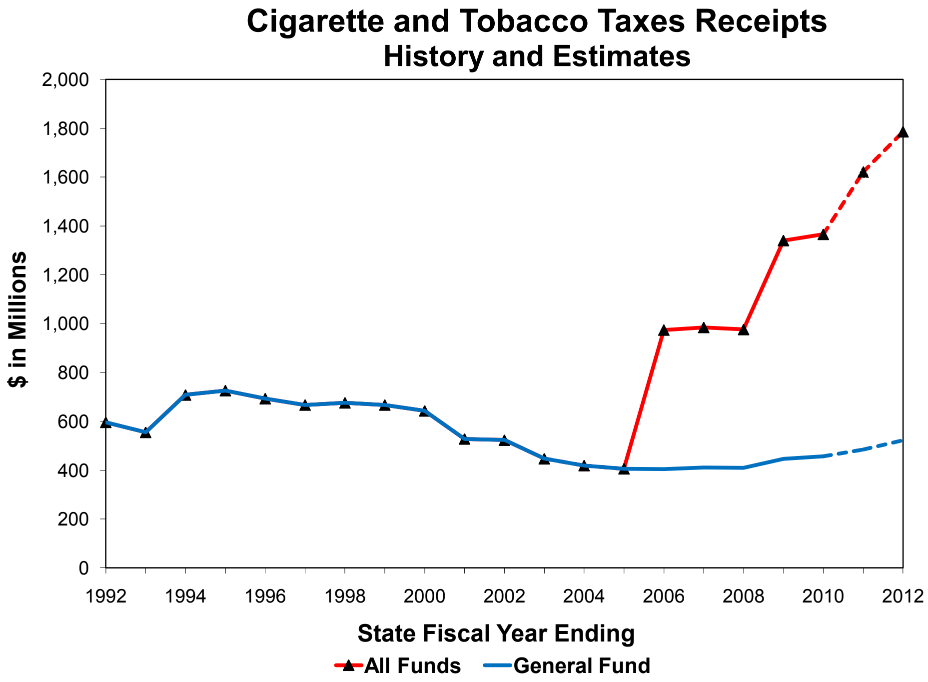
Legislation enacted in 2009 dedicated all receipts from the supplemental tax on passenger cars in the MCTD to the MTA Aid Trust Account of the MTA Financial Assistance Fund, effective June 1, 2009.

CIGARETTE AND TOBACCO TAXES

CIGARETTE AND TOBACCO TAXES
(millions of dollars)

	2009-10 Actual	2010-11 Estimated	Change	Percent Change	2011-12 Projected	Change	Percent Change
General Fund	456.4	484.0	27.6	6.0	514.0	30.0	6.2
Other Funds	909.5	1,137.0	227.5	25.0	1,272.0	135.0	11.9
All Funds	1,365.9	1,621.0	255.1	18.7	1,786.0	165.0	10.2

Note: Totals may differ due to rounding.



CIGARETTE AND TOBACCO TAXES BY FUND
(millions of dollars)

	Gross General Fund	Refunds	General Fund	Special Revenue Funds*	All Funds Receipts
2001-02	530	7	523	0	532
2002-03	454	8	446	0	446
2003-04	428	9	419	0	419
2004-05	409	3	406	0	406
2005-06	406	2	404	571	974
2006-07	412	1	411	574	985
2007-08	410	1	409	567	976
2008-09	447	1	446	894	1,340
2009-10	457	1	456	910	1,366
Estimated					
2010-11	485	1	484	1,137	1,621
2011-12					
Current Law	515	1	514	1,272	1,786
Proposed Law	515	1	514	1,272	1,786

*Between March 2000 and March 2005, a portion of the State's cigarette tax receipts was deposited in the off-budget Tobacco Control and Insurance Initiatives Pool established in the Heath Care Reform Act of 2000. After March 2005, that portion is deposited in the HCRA Resources Pool which is a Special Revenue Fund within the State's Fund structure.

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

Tax Base and Rate

The New York State cigarette excise tax is imposed by Article 20 of the Tax Law on the sale or use of cigarettes within the State. The current tax rate is $4.35 per package of 20 cigarettes.

The Federal government imposes a cigarette excise tax at a rate of $1.01 per pack on manufacturers and first importers of cigarettes. New York City also levies a separate cigarette excise tax of $1.50 per pack.

STATE, FEDERAL AND NEW YORK CITY
CIGARETTE EXCISE TAX RATES
PER PACK OF 20 CIGARETTES
(since 1950)

State		Federal		New York City	
	Rate		*Rate*		*Rate*
	(cents)		(cents)		(cents)
July 1, 1939	2	Before November 1, 1951	7	Before May 1, 1959	1
January 1, 1948	3	November 1, 1951	8	May 1, 1959	2
April 1, 1959	5	January 1, 1983	16	June 1, 1963	4
April 1, 1965	10	January 1, 1991	20	January 1, 1976	8
June 1, 1968	12	January 1, 1993	24	July 2, 2002	150
February 1, 1972	15	January 1, 2000	34		
April 1, 1983	21	January 1, 2002	39		
May 1, 1989	33	April 1, 2009	101		
June 1, 1990	39				
June 1, 1993	56				
March 1, 2000	111				
April 3, 2002	150				
June 3, 2008	275				
July 1, 2010	435				

The State also imposes a tax on other tobacco products, such as chewing tobacco, snuff, cigars, pipe tobacco and roll-your-own cigarette tobacco, at a rate of 75 percent of their wholesale price except for snuff products, which are taxed at a rate of $2.00 per ounce. Cigars with a weight of less than 4 pounds per 1,000 are taxed at a rate equivalent to the state cigarette tax. The Federal government also imposes an excise tax on manufacturers and importers of tobacco products at various rates, depending on the type of product.

Retail establishments that sell cigarettes are required to register with the Department of Taxation and Finance. Vending machine owners are required to purchase stickers from the Department.

The following table provides a comparison of state cigarette tax rates.

CIGARETTE TAX RATES
Cents Per Pack Ranked by State Tax Rate
As of January 1, 2011

Rank (High toLow)	State Rate	Rank (High toLow)	State Rate
New York	**435.0**	Florida	133.9
Rhode Island	346.0	Ohio	125.0
Washington	302.5	Oregon	118.0
Connecticut	300.0	Arkansas	115.0
Hawaii	300.0	Oklahoma	103.0
New Jersey	270.0	Indiana	99.5
Wisconsin	252.0	Illinois	98.0
Massachusetts	251.0	California	87.0
District of Columbia	250.0	Colorado	84.0
Vermont	224.0	Nevada	80.0
Alaska	200.0	Kansas	79.0
Arizona	200.0	Mississippi	68.0
Maine	200.0	Nebraska	64.0
Maryland	200.0	Tennessee	62.0
Michigan	200.0	Kentucky	60.0
New Hampshire	178.0	Wyoming	60.0
Montana	170.0	Idaho	57.0
Utah	170.0	South Carolina	57.0
New Mexico	166.0	West Virginia	55.0
Delaware	160.0	North Carolina	45.0
Pennsylvania	160.0	North Dakota	44.0
Minnesota	157.6	Alabama	42.5
South Dakota	153.0	Georgia	37.0
National Average	**144.7**	Louisiana	36.0
Texas	141.0	Virginia	30.0
Iowa	136.0	Missouri	17.0

Source: Campaign for Tobacco-Free Kids

Administration

State-registered stamping agents, who are mostly wholesalers, purchase tax stamps from the State and affix the stamps to cigarette packages to be sold by New York State registered retailers. The excise tax is paid by the stamping agent and is passed on. Purchasers of non-State stamped cigarettes, such as cigarettes sold out-of-State or on Native American lands, must remit the cigarette excise tax directly to the Department of Taxation and Finance. An individual may bring two cartons into the State without being subject to the excise tax.

Tax Evasion

Cigarette tax evasion is a serious problem in New York and throughout the Northeast. Widespread evasion not only reduces State and local revenues, but also reduces the income of legitimate wholesalers and retailers. The Department of Taxation and Finance has acted vigorously to curb cigarette bootlegging through investigatory and enforcement efforts. Legislation enacted in 1996 substantially increased penalties for retailers and wholesalers who sell unstamped or illegally stamped packages of cigarettes. Further legislation enacted in 2002 increased the number of enforcement agents.

The positive effects of the 1996 enforcement legislation were realized later that year, with an increase in the number of new retailer license applications. This increase, as well as an enhanced State enforcement presence, may have led to less severe declines in taxable cigarette consumption than otherwise would have occurred.

In 2000, comprehensive legislation was enacted to combat cigarette bootlegging and reduce youth and adult smoking that included prohibiting the delivery by common carrier of cigarettes to individual consumers in New York.

In 2005, legislation was enacted requiring the collection of tax on cigarettes sold on Native American reservations to non-Native Americans through the use of a coupon system to provide an adequate supply of untaxed cigarettes for consumption by the nation or tribe. In January 2007, a preliminary injunction was issued in State Supreme Court enjoining the enforcement of these statutes until certain actions are taken by the Tax Department, including the issuance of enabling regulations and the distribution of Indian tax-exempt coupons. This injunction was lifted in 2010 following the adoption of regulations.

In 2010, legislation was enacted providing for a prior approval system that allows for the sale of untaxed, stamped cigarettes to be sold to reservation retailers in an amount that will provide an adequate supply of untaxed cigarettes for consumption by the nation or tribe. The Indian nation or tribe can opt to use the coupon system in place of the prior approval system. A Federal District Court has currently enjoined the State from implementing this law. Also in 2010, the Federal government prohibited the shipment of cigarettes through the U.S. Postal Service.

Significant Legislation

The significant statutory changes to cigarette and tobacco taxes since 1939 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1939		
Cigarettes – Imposition	Imposed a “temporary” tax on the sale of cigarettes at the rate of $0.02 per pack.	July 1, 1939
Legislation Enacted in 1947		
Cigarettes – Permanent	Made the $0.02 per pack tax on cigarettes permanent.	March 8, 1947
Cigarettes – Additional Tax	Imposed an additional $0.01 per pack tax (0.5 cents per 10 cigarettes) to finance the “war bonus account.”	January 1, 1948
Legislation Enacted in 1949		
Cigarettes – Use Tax	Enacted a cigarette use tax.	May 1, 1949
Legislation Enacted in 1959		
Cigarettes – Increase	Increased the cigarette tax to $0.05 per pack from $0.03.	April 1, 1959
Tobacco – Imposition	Enacted a tobacco products tax equal to 15 percent of the wholesale price of tobacco products.	July 1, 1959
Legislation Enacted in 1961		
Tobacco – Repeal	Repealed the tobacco products tax.	July 1, 1961
Legislation Enacted in 1985		
Cigarettes - CMSA	Enacted the Cigarette Marketing Standards Act (CMSA) as Article 20-A of the Tax Law.	November 1, 1985
Legislation Enacted in 1989		

Subject	Description	Effective Date
Tobacco – Imposition	Enacted a tobacco products tax equal to 15 percent of the wholesale price of tobacco products.	July 1, 1989
Legislation Enacted in 1993		
Tobacco – Rate Increase	Increased the tobacco products tax to 20 percent of the wholesale price from 15 percent.	June 1, 1993
Legislation Enacted in 1996		
Enforcement Provisions	Increased penalties and fines for selling unstamped cigarettes, violation of retail dealer and vending machine registration provisions, and providing inaccurate registration information.	December 3, 1996
Legislation Enacted in 1999		
Cigarette Tax Increase	Increased the cigarette excise tax from 56 cents to $1.11 per pack, as part of the Health Care Reform Act (HCRA) of 2000.	March 1, 2000
Legislation Enacted in 2000		
Underage Smoking	Increased penalties for illegal sales of tobacco products to minors.	September 1, 2000
Enforcement Provisions	Created civil and criminal penalties for persons who sell and ship cigarettes to persons who are not licensed or registered cigarette dealers or agents.	November 16, 2000
Enforcement Provisions	Created civil and criminal penalties for carriers who transport cigarettes to persons who are not licensed or registered cigarette dealers or agents.	January 1, 2001
Safe Cigarettes	Required the promulgation and imposition of fire-safety standards for cigarettes and rolled tobacco products sold in New York.	July 1, 2004
Legislation Enacted In 2002		
Cigarette Tax Increase	Increased the cigarette excise tax from $1.11 per pack to $1.50 per pack.	April 3, 2002
Tobacco Tax Increase	Increased the other tobacco products tax from 20 percent of the wholesale price to 37 percent.	July 3, 2002
Enforcement Provisions	Increased the number of enforcement agents.	May 29, 2002
Legislation Enacted In 2005		
Enforcement Provisions	Required collection of tax on sales to non-Native Americans on New York reservations.	March 1, 2006
Legislation Enacted In 2008		
Cigarette Tax Increase	Increased the cigarette excise tax from $1.50 per pack to $2.75 per pack.	June 3, 2008
Tobacco Tax	Imposed a tax on snuff products at a rate of $0.96 cents per ounce.	July 1, 2008
Legislation Enacted In 2009		
Cigarette Tax	Increased retail registration fees from $100 to $1,000 for retail locations with less than $1 million in annual sales, $2,500 for retail locations with annual sales of at least $1 million but less than $10 million, and $5,000 for retail locations with sales of $10 million or more.	January 1, 2010
Tobacco Tax	Increased the other tobacco products tax from 37 percent of the wholesale price to 46 percent.	April 7, 2009
Legislation Enacted In 2010		
Cigarette Tax Increase	Increased the cigarette excise tax from $2.75 per pack to $4.35 per pack.	July 1, 2010
Enforcement Provisions	Required all cigarettes sold to Native American nations or tribes and reservation cigarette sellers to bear a tax stamp, established a prior approval system for sales of untaxed, stamped cigarettes to reservation retailers, and allowed the governing body of an Native American nation or tribe to opt to use the coupon system for the purchase of tax exempt cigarettes for sales to its members.	September 1, 2010
Tobacco Tax	Increased the tobacco products tax to 75 percent of the wholesale price from 46 percent; increased the tax on snuff to $2.00 per ounce from $0.96 per ounce; and created a new category under the tobacco products tax imposing a tax on "little cigars" at a rate equivalent to the cigarette tax rate.	August 1, 2010

TAX LIABILITY

Taxable cigarette consumption is a function of retail cigarette prices and a long-term downward trend in consumption. The decline in consumption reflects the impact of increased public awareness of the adverse health effects of smoking, smoking restrictions imposed by governments, anti-smoking education programs, and changes in consumer preferences toward other types of tobacco. Recently, declines in taxable consumption have been exacerbated by evasion.

For a more detailed discussion of the methods and models used to develop estimates and projections for the cigarette and tobacco taxes, please see the *Economic, Revenue and Spending Methodologies* at www.budget.state.ny.us.

TOBACCO MSA PAYMENTS

Under the Tobacco Master Settlement Agreement (MSA) reached between states and manufacturers in 1998, manufacturers are required to make payments to New York. The amounts of these payments are subject to various adjustments. The adjustment for the volume of packs shipped is based on national shipments, and changes in New York consumption will have only a minor impact. In 2003 and 2004, New York State issued $4.2 billion in tobacco bonds and used these payments to pay debt service.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2010-11 Estimates

Total collections (including HCRA) through December are $1,255.8 million, an increase of $177.6 million or 16.5 percent above the comparable period in the prior fiscal year.

Total receipts for 2010-11 are estimated to be $1,621 million, an increase of $255.1 million, or 18.7 percent from 2009-10. The increase reflects the impact of the State cigarette tax increase of $1.60 per pack, to $4.35 per pack, effective July 1, 2010 and the increase in the tax rates on other tobacco products, effective August 1, 2010. The 2010-11 estimate assumes that the State receives no revenue from implementation of laws requiring the collection of tax on cigarettes sold on Indian reservations to non-Native Americans.

2011-12 Projections

All Funds receipts are projected to be $1,786 million, an increase of $165 million, or 10.2 percent above 2010-11. This increase reflects the full year impact of the legislation enacted in 2010-11, including $130 million in cigarette tax revenue from the implementation of laws requiring the collection of tax on cigarettes sold on Indian reservations to non-Native Americans.

Health Care Reform Act (HCRA)

Legislation passed in 2002 established a percentage distribution of cigarette tax receipts to HCRA. The following table shows the historic distributions since then.

CIGARETTE TAX DISTRIBUTION (percent)	
April 1, 2002, to April 30, 2002	
General Fund	56.30
HCRA	43.70
May 1, 2002, to March 31, 2003	
General Fund	35.45
HCRA	64.55
April 1, 2003, to June 2, 2008	
General Fund	38.78
HCRA	61.22
Beginning June 3, 2008	
General Fund	29.37
HCRA	70.63
Beginning July 1, 2010	
General Fund	24.00
HCRA	76.00

Prior to 2005-06, HCRA was not included within the State’s fund structure. Beginning in 2005-06, the HCRA Resources Pool was included in the State's All Funds collections as a Special Revenue Fund. Currently, 76 percent of the proceeds from the State cigarette tax of $4.35 are deposited in the HCRA Resources Pool.

Based on the percentage distribution of the cigarette tax, the pool will receive an estimated $1,137 million in 2010-11. Receipts for the first 9 months of 2010-11 are $876.5 million, $160.8 million or 22.5 percent above receipts for the comparable period in 2009-10. HCRA will receive a larger percentage of cigarette tax receipts in 2010-11 due to the change in the percentage distribution that took effect in July 2010.

Receipts in 2011-12 are projected to be $1,272 million, an increase of $135 million, or 11.9 percent from 2010-11. This reflects the full-year impact of tax increases that took effect in SFY 2010-11 and the anticipated implementation of laws to collect tax on sales by reservation retailers to non-Native Americans

As part of the agreement allowing New York City to increase its cigarette tax from eight cents to $1.50 per pack in July 2002, the City provides the State with 46 percent of the receipts generated through its tax. These receipts are deposited into the HCRA Resources Pool. The New York State share of the City’s cigarette tax is projected to be $65 million in 2010-11 and $59 million in 2011-12.

General Fund

General Fund receipts through December are $394.7 million, an increase of $32.2 million or 11.3 percent above the comparable period in the prior fiscal year.

General Fund cigarette and tobacco tax receipts for 2010-11 are estimated at $484 million, an increase of 27.6 million, or 6 percent, from 2009-10. Receipts from the cigarette tax are projected to be $385 million, an increase of $6.8 million, or 1.8 percent from 2009-10. This growth reflects the impact from pre-buying in advance of the July 1, 2010 cigarette tax increase and the increase in tax rates on other tobacco products. Receipts from the tobacco products tax are projected to be $95 million, $31.4 million or 49.4 percent higher than in 2009-10 following the increase in the tobacco products tax from 46 percent of the wholesale price to 75 percent of the wholesale price in August 1, 2010.

Receipts from retail cigarette registrations are estimated to be $4 million in 2010-11, a decline of $10 million due from 2009-10. A temporary restraining order remains in effect preventing the increased retail registration fee enacted in the 2009-10 budget. This temporary restraining order has allowed retailers to register based on the pre-increase rates pending further court action. However, some retailers in 2009 paid the higher rates prior to the issuance of the restraining order.

For 2011-12, General Fund cigarette tax and tobacco tax receipts are projected at $514 million, an increase of $30 million, or 6.2 percent from 2010-11. Cigarette tax receipts are expected to be $402 million, 4.4 percent or $17 million higher than in 2010-11, while tobacco products tax receipts are estimated to be $108 million, an increase of $13 million, or 13.4 percent from 2010-11. These increases reflect the full-year impact of tax increases on other tobacco products that took effect in SFY 2010-11 and the anticipated implementation of laws to collect tax on sales by reservation retailers to non-Native Americans. Receipts from retail registrations are projected to remain at $4 million in 2011-12 pending the outcome of litigation on the fee increase.

CIGARETTE AND TOBACCO TAXES RECEIPTS
(millions of dollars)

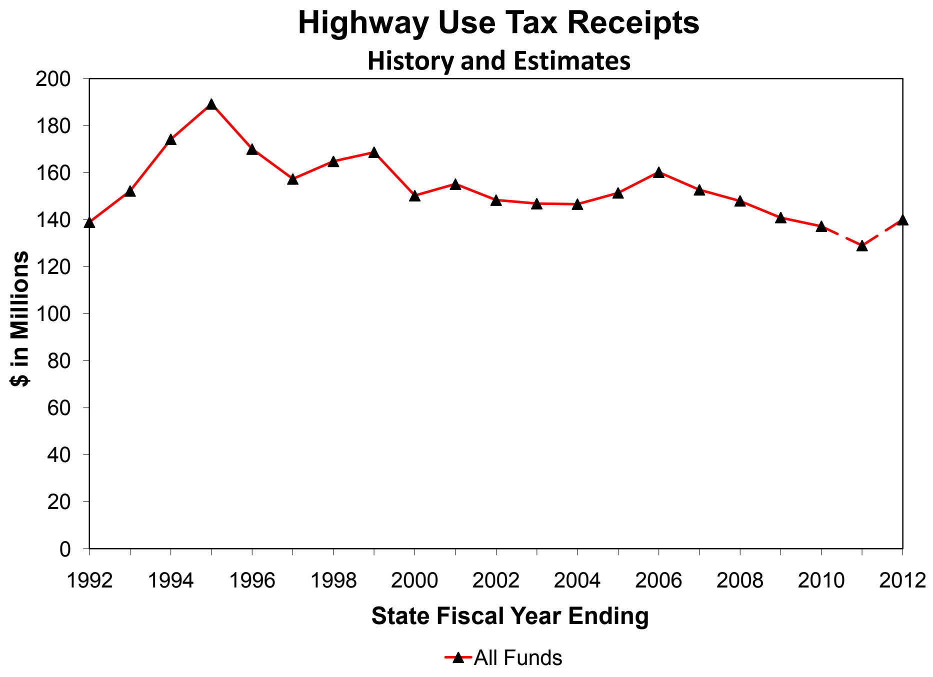
	General Fund					
Fiscal Year	Cigarette Tax	Tobacco Tax	Other	Total	HCRA Cigarette Tax*	General Fund Plus HCRA
2001-02	499	22	2	523	481	1,005
2002-03	404	38	5	446	675	1,121
2003-04	376	40	3	419	593	1,013
2004-05	363	40	3	406	573	979
2005-06	361	39	3	404	571	974
2006-07	364	44	3	411	574	985
2007-08	359	47	3	409	567	976
2008-09	395	48	3	446	894	1,340
2009-10	378	64	14	456	910	1,366
Estimated						
2010-11	385	95	4	484	1,137	1,621
2011-12	402	108	4	514	1,272	1,786

Note: Components may not add to total due to rounding.
* Prior to 2005-06, HCRA Cigarette Tax receipts were deposited to the off-budget Tobacco Control and Insurance Incentive Pool established in the Health Care Reform Act of 2000.

HIGHWAY USE TAX

HIGHWAY USE TAX (millions of dollars)							
	2009-10 Actual	2010-11 Estimated	Change	Percent Change	2011-12 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	137.2	129.0	(8.2)	(6.0)	140.0	11.0	8.5
All Funds	137.2	129.0	(8.2)	(6.0)	140.0	11.0	8.5

Note: Totals may differ due to rounding.



HIGHWAY USE TAX BY FUND (millions of dollars)				
	Gross Capital Projects Funds[1]	Refunds	Capital Projects Funds[1]	All Funds Receipts
2001-02	150	2	148	148
2002-03	149	2	147	147
2003-04	149	2	147	147
2004-05	153	2	151	151
2005-06	162	2	160	160
2006-07	155	2	153	153
2007-08	150	2	148	148
2008-09	143	2	141	141
2009-10	139	2	137	137
Estimated				
2010-11	131	2	129	129
2011-12	142	2	140	140

[1] Dedicated Highway and Bridge Trust Fund.

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

Articles 21 and 21-A of the Tax Law impose a highway use tax on commercial vehicles using the public highways of the State. Highway use tax revenues are derived from three sources: the truck mileage tax, the fuel use tax and registration fees.

Truck Mileage Tax

The truck mileage tax (TMT) is levied on commercial vehicles having a loaded gross weight of more than 18,000 pounds, or an unloaded weight in excess of 8,000 pounds for trucks and 4,000 pounds for tractors. The tax is imposed at rates graduated according to the gross vehicle weight. Under the gross weight method, the tax is calculated by multiplying the number of "laden" or "unladen" miles traveled on public highways of the State by the appropriate tax rate.

In addition, a supplemental tax equal to the base truck mileage tax was imposed in 1990. The supplemental tax was reduced by 50 percent on January 1, 1999, and was reduced by an additional 20 percent on April 1, 2001.

BASE TRUCK MILEAGE TAX RATES

Gross Weight Method		Unloaded Weight Method	
Laden Miles Gross Weight of Vehicle	**Mills Per Mile**	**Unloaded Weight of Truck**	**Mills Per Mile**
18,001 to 20,000	6.0	8,001 to 9,000	4.0
20,001 to 22,000	7.0	9,001 to 10,000	5.0
(increased gradually to)		(increased gradually to)	
74,001 to 76,000	35.0	22,501 to 25,000	22.0
76,001 and over	add 2 mills per ton and fraction thereof	25,001 and over	27.0
Unladen Miles Unloaded Weight of Truck		**Unloaded Weight of Tractor**	
18,001 to 20,000	6.0	4,001 to 5,500	6.0
20,001 to 22,000	7.0	5,501 to 7,000	10.0
(increased gradually to)		(increased gradually to)	
28,001 to 30,000	10.0	10,001 to 12,000	25.0
30,001 and over	add 5/10 of a mill per ton and fraction thereof	12,001 and over	33.0
Unloaded Weight of Tractor			
7,001 to 8,500	6.0		
8,501 to 10,000	7.0		
(increased gradually to)			
16,001 to 18,000	10.0		
18,001 and over	add 5/10 of a mill per ton and fraction thereof		

Fuel Use Tax

The fuel use tax is a complement to the motor fuel tax and the sales tax, and is levied on commercial vehicles: (1) having two axles and a gross vehicle weight of more than 26,000 pounds; (2) having three or more axles, regardless of weight; or (3) used in combination when the gross vehicle weight exceeds 26,000 pounds. In contrast to the sales tax and motor fuel tax, which are imposed upon the amount of fuel purchased within the State, the fuel use tax is imposed on fuel purchased outside but used within New York. This tax is based on the number of miles traveled on the public highways of the State.

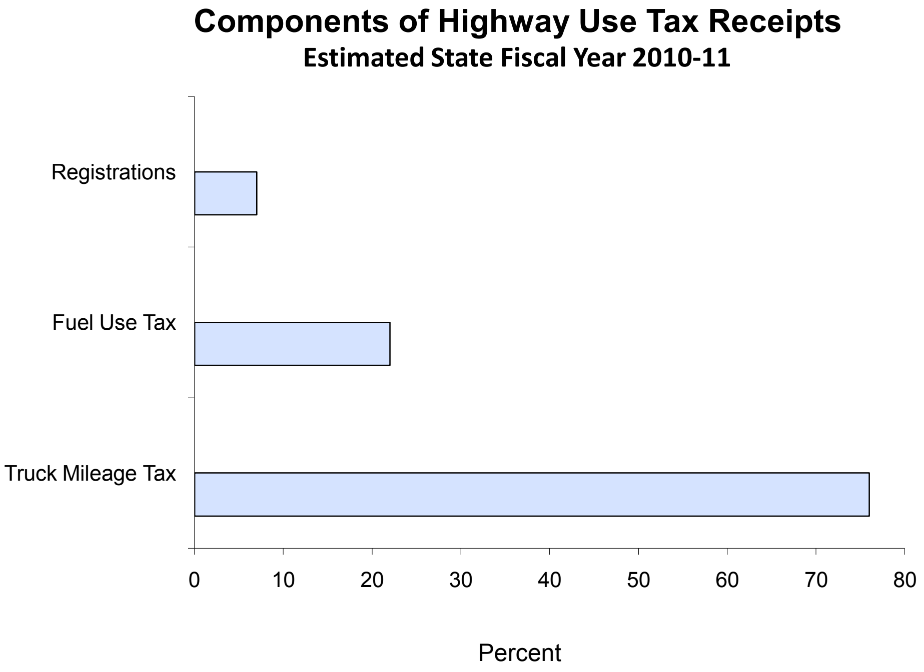
The aggregate fuel use tax rate is the sum of the appropriate motor fuel tax rate and the sales tax rate. The motor fuel tax component is eight cents per gallon. The sales tax component is derived by adding the amount from the State sales tax rate and the amount from the lowest county sales tax rate. A credit or refund is allowed for motor fuel tax, petroleum business tax or sales tax paid on fuels purchased in New York but not used within the State.

Registration System

On August 10, 2005, a Federal law was enacted that restricted the ability of States to require motor carriers to display a permit sticker. This law was later repealed on September 6th, 2008, in a technical corrections bill. On July 1, 2007, New York State replaced the permit system with a registration system to adhere to this Federal transportation law.

The current registration system is based on the license plate number of each vehicle. The Commissioner could deny registration if the carrier has not paid monies due from any other tax and there is a civil penalty for any person who fails to obtain a certificate of registration when it is required. In addition, the Commissioner of the Department of Taxation and Finance is authorized to require the use of decals again. It is assumed that the Commissioner will mail out decals in 2011-12. Special permits are issued for the transportation of motor vehicles, for automotive fuel carriers, and for trips into New York State not to exceed 72 hours.

Effective April 7, 2009, the application fee for a certificate of registration for any trailer, semi-trailer, dolly, or other attached device used for transporting automotive fuel was increased from $5 to $15. The renewal fee for any truck, tractor, or other self propelled vehicle was increased from $4 to $15, and the renewal fee for any trailer, semi-trailer, dolly, or other attached device used for transporting automotive fuel was increased from $2 to $15. Based on these amendments, the initial cost and the renewal fee for a certificate of registration are now all $15. The cost of a decal is $4.



Administration

Most taxpayers remit the truck mileage tax on a monthly basis. The tax is remitted on or before the last day of each month for the preceding month. Fuel use taxpayers file quarterly with their home state under the rules of the International Fuel Tax Agreement (IFTA). The home state subsequently distributes the funds to the state where the liability occurred.

Significant Legislation

The significant statutory changes to this tax source since 1951 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1951		
Truck Mileage Tax	Imposed a truck mileage tax based on weight and miles driven in New York (Mileage on State Thruway was exempted).	1951 and after
Legislation Enacted in 1960		
Tax Calculation	Created an optional method introduced for determining tax, based on unloaded weight and mileage.	1960 and after
Legislation Enacted in 1968		
Fuel Use Tax	Added the fuel use tax (rate equaled the motor fuel excise tax rate) and applied to fuel purchased out of State but used in New York State.	1968 and 1970
Legislation Enacted in 1977		
Sales Tax Component	Added an eight percent sales tax component to the fuel use tax.	1977 and after
Legislation Enacted in 1978		
FUT Rate Change	Reduced the sales tax component from eight to seven percent.	1978 and after
Legislation Enacted in 1982		

Subject	Description	Effective Date
Fuel Carrier Permit	Required that every automotive fuel carrier must have a special Automotive Fuel Carrier permit and distinctively colored sticker for each motor vehicle, required to be registered under the Highway Use Tax Law.	September 1, 1982
Legislation Enacted in 1987		
Trip Permit	Established a 72-hour "trip permit."	October 1, 1987
Legislation Enacted in 1990		
Thruway Miles and Supplemental Tax	Applied the truck mileage tax to Thruway miles. Imposed a supplemental tax equal to the base mileage tax.	July 1, 1990
Legislation Enacted in 1993		
Trust Fund	Earmarked receipts to the Dedicated Highway and Bridge Trust Fund.	April 1, 1993
Legislation Enacted in 1994		
Thruway Mileage	Reduced the truck mileage tax rates imposed on New York State Thruway mileage by one-half and eliminated such rates on and after January 1, 1996.	January 1, 1995
Refunds	Permitted taxpayers who purchase more fuel in New York State than they consume in the State to claim refunds or credits for all excess payments of State fuel use taxes (prior to January 1, 1995, taxpayers could only obtain a refund or credit for the motor fuel tax portion of the fuel use tax).	January 1, 1995
International Fuel Tax Agreement	Authorized the State to join the federally mandated International Fuel Tax Agreement (IFTA) on January 1, 1996. This agreement provides for the uniform reporting and collection of fuel-use-related taxes among IFTA jurisdictions. Under IFTA, jurisdictions may only impose a fuel use tax on vehicles with loaded gross weights of more than 26,000 pounds or with three or more axles. Therefore, since January 1, 1996, vehicles with loaded gross weights between 18,000 pounds and 26,000 pounds and with fewer than three axles that had been taxed in New York were excluded from the fuel use tax.	January 1, 1996
Legislation Enacted in 1995		
Fuel Use Tax Rate Cut	Reduced the diesel fuel excise tax rate from ten cents per gallon to eight cents per gallon. As a result, the diesel fuel tax component of the fuel use tax was also reduced to eight cents per gallon.	January 1,1996
Legislation Enacted in 1998		
Supplemental Tax	Reduced the truck mileage supplemental tax by 50 percent.	January 1, 1999
Legislation Enacted in 2000		
Supplemental Tax	Reduced the truck mileage supplemental tax by 20 percent.	April 1, 2001
Legislation Enacted in 2006		
Alternative Fuels	Exempted or partially exempted fuel use tax on alternative fuels, including E85 and B20.	September 1, 2006
Fuel Use Tax Cap	Capped the statewide rate for the sales tax component at 8 cents per gallon for motor fuel and diesel motor fuel for the State rate, plus the lowest county sales tax rate.	June 1, 2006
Legislation Enacted in 2007		
HUT – Permit	Replaced the permit system with a registration system.	July 1, 2007
Legislation Enacted in 2009		
HUT - Fee Increase	Increased the replacement fee for a certificate of registration to $15.	April 7, 2009

TAX LIABILITY

Highway use tax receipts are a function of the demand for trucking, which fluctuates with national and State economic conditions.

For a more detailed discussion of the methods and models used to develop estimates and projections for the highway use tax, please see *Economic, Revenue and Spending Methodologies* at www.budget.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2010-11 Estimates

All Funds collections through December are $99.9 million, a decrease of $7.2 million, or 6.7 percent below the comparable period in the prior fiscal year. Since this is a non-triennial year, registration fee receipts are $6.7 million below 2009-10 collections.

All Funds receipts for 2010-11 are estimated to be $129 million, a decrease of $8.2 million, or 6 percent below last year.

Net truck mileage tax receipts are estimated at $99 million, fuel use tax receipts at $27 million and registration fees at $3 million.

2011-12 Projections

All Funds receipts are projected to be $140 million, an increase of $11 million, or 8.5 percent above 2010-11. This assumes that with increased enforcement and improved economic conditions, truck mileage tax receipts will increase significantly.

General Fund

Since 1994-95, no highway use tax receipts have been deposited in the General Fund.

Other Funds

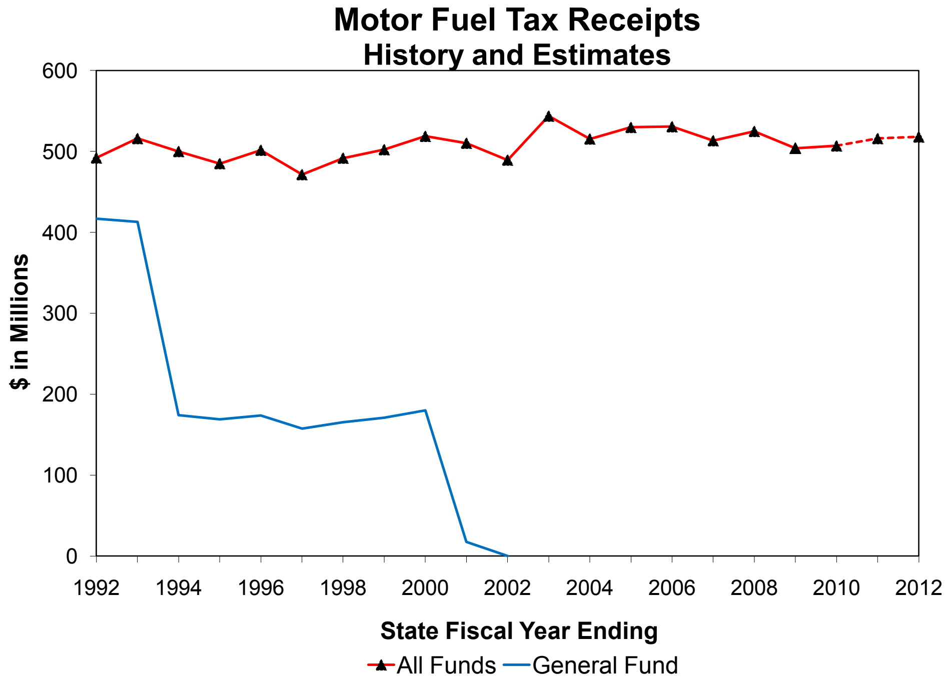
Currently, all highway use tax receipts are directed to the Dedicated Highway and Bridge Trust Fund.

MOTOR FUEL TAX

MOTOR FUEL TAX
(millions of dollars)

	2009-10 Actual	2010-11 Estimated	Change	Percent Change	2011-12 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	506.9	516.0	9.1	1.8	518.0	2.0	0.4
All Funds	506.9	516.0	9.1	1.8	518.0	2.0	0.4

Note: Totals may differ due to rounding.



MOTOR FUEL TAX BY FUND
(millions of dollars)

	Gross All Funds Receipts	General Fund	Special Revenue Funds[1]	Capital Projects Funds[2]	Debt Service Funds[3]	All Funds Refunds	All Funds Receipts
2001-02	502	0	62	320	107	13	489
2002-03	560	0	69	356	119	16	544
2003-04	528	0	105	411	0	12	516
2004-05	542	0	110	420	0	12	530
2005-06	546	0	111	420	0	15	531
2006-07	526	0	107	406	0	13	513
2007-08	543	0	110	415	0	18	525
2008-09	528	0	106	398	0	24	504
2009-10	523	0	106	401	0	16	507
Estimated							
2010-11	534	0	108	408	0	18	516
2011-12							
Current Law	540	0	109	409	0	22	518
Proposed Law	540	0	109	409	0	22	518

[1] Dedicated Mass Transportation Trust Fund.

[2] Dedicated Highway and Bridge Trust Fund.

[3] Emergency Highway Reconditioning and Preservation Fund and Emergency Highway Construction and Reconstruction Fund.

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- extend for one year the full or partial tax exemptions on E85, CNG, hydrogen and B20 when purchased for use in a motor vehicle engine; and
- modernize certain fuel definitions to conform with changes in Federal and State law. This proposal would also conform the enforcement provisions for highway use diesel fuel with those currently applied to motor fuel.

DESCRIPTION

Tax Base

Gasoline motor fuel and diesel motor fuel taxes are imposed by Article 12-A of the Tax Law upon the sale, generally for highway use, of motor fuel and diesel motor fuel, respectively. The motor fuel tax is levied primarily on fuel used in motor vehicles operating on the public highways of the State or on fuel used in recreational motorboats operating on the State's waterways. Exemptions, credits and refunds are allowed for certain other uses of gasoline and diesel motor fuel.

Tax Rate

The motor fuel tax on gasoline motor fuel and diesel fuel is eight cents. The history of the tax rate is below.

A motor fuel tax of two cents was imposed on gasoline motor fuel in 1929. The tax on gasoline was increased to 3 cents in 1932, to four cents in 1937, to six cents in 1956, to seven cents in 1959 and to eight cents in 1972. A motor fuel tax of two cents was imposed on diesel motor fuel in 1936. The tax on diesel fuel was increased to four cents in 1947, to six cents in 1956, to nine cents in 1959 and to ten cents in 1972. The tax on diesel fuel was reduced to eight cents in 1996.

RANKING OF STATE TAXES PER GALLON (January 1, 2011) [1]

State	State Motor Fuel Tax (cents per gallon)	Total State Tax [2] (cents per gallon)
1. CONNECTICUT**	25.0	41.0
2. WASHINGTON	37.5	38.5
3. INDIANA *	18.0	36.0
4. MICHIGAN *	19.0	36.0
5. CALIFORNIA	35.3	35.3
6. ILLINOIS *	19.0	34.0
7. **NEW YORK ***	8.0	33.3
8. RHODE ISLAND	32.0	33.0
9. WISCONSIN	30.9	32.9
10. N. CAROLINA	32.5	32.9
11. W. VIRGINIA	20.5	32.2
12. PENNSYLVANIA	12.0	31.2
13. MAINE	29.5	31.0
14. OREGON	30.0	31.0
15. HAWAII *	17.0	30.0
16. OHIO	28.0	28.0
17. MONTANA	27.0	27.8
18. NEBRASKA	26.4	27.2
19. MINNESOTA	27.0	27.1
20. IDAHO	25.0	26.0
21. KENTUCKY	24.5	25.9
22. KANSAS	24.0	25.0
23. UTAH	24.5	24.5
24. VERMONT	19.0	24.5
25. S. DAKOTA	22.0	24.0
26. DIST. OF COLUMBIA	23.5	23.5
27. MARYLAND	23.5	23.5
28. MASSACHUSETTS	21.0	23.5
29. DELAWARE	23.0	23.0
30. N. DAKOTA	23.0	23.0
31. NEVADA	23.0	23.0
32. COLORADO	22.0	22.0
33. IOWA	21.0	22.0
34. ARKANSAS	21.5	21.7
35. TENNESSEE	20.0	21.4
36. LOUISIANA	20.0	20.0
37. TEXAS	20.0	20.0
38. NEW HAMPSHIRE	18.0	19.5
39. ARIZONA	18.0	19.0
40. GEORGIA *	7.5	19.0
41. VIRGINIA	19.0	19.0
42. NEW MEXICO	17.0	18.9
43. MISSISSIPPI	18.0	18.8
44. MISSOURI	17.0	17.3
45. ALABAMA	16.0	17.0
46. OKLAHOMA	16.0	17.0
47. S. CAROLINA	16.0	16.8
48. FLORIDA	16.2	16.2
49. NEW JERSEY	10.5	14.5
50. WYOMING	13.0	14.0
51. ALASKA	8.0	8.0

NOTES:

(1) Assumes a pump price of $3

(2) Includes applicable State sales tax--(local taxes not included)

* State sales tax applies on sales of gasoline in these states

** Includes petroleum gross receipts tax --7% of w holesale gasoline price

Source: OTPA compilation from various sources including CCH Tax Guides & FTA

Administration

Although the motor fuel tax is imposed on the consumer, the tax is remitted upon importation into New York. This tax-on-first-import system is designed to reduce gasoline tax evasion, which has involved bootlegging from other states and successions of tax-free sales among "dummy" corporations masked by erroneous record keeping and reporting.

Since 1988, taxes on diesel motor fuel have been collected upon the first non-exempt sale in the State. Prior to that time, the diesel motor fuel tax was collected at the time of retail sale or use by a bulk user. For the past 20 years, the federal government has amended its fuel tax structure and environmental regulations while the State fuel definitions have stayed the same. For these reasons, the Executive proposes updating the fuel definitions and moving towards a dyed fuel system.

The tax is generally remitted monthly, although vendors whose average monthly tax is less than $200 may remit quarterly. Chapter 55 of the Laws of 1992 required accelerated remittance of the tax by taxpayers with annual liability of more than $5 million for motor fuel and petroleum business tax (PBT) combined. These taxpayers are required to remit taxes electronically or by certified check by the third business day following the first 22 days of each month. Taxpayers can choose to make either a minimum payment of three-fourths of the comparable month's tax liability for the preceding year, or 90 percent of actual liability for the first 22 days. Taxes for the balance of the month are remitted by the twentieth of the following month.

Tax Expenditures

Exemptions from the motor fuel tax include:

- kerosene and crude oil;
- fuel not used in motor vehicles. "Motor vehicle" is defined as any vehicle propelled by power, except muscular power. However, vehicles such as boats (other than pleasure craft), road building machinery and tractors used exclusively for agricultural purposes are excluded from the definition of motor vehicles;
- fuel used in tanks of vehicles entering New York State;
- sales to state, local and Federal governments, the United Nations and qualifying Native American nations; and
- certain exempt organizations.

Other exemptions apply only to the diesel motor fuel tax, including certain sales for heating purposes and sales of kero-jet fuel for use in airplanes.

Full and partial refunds and credits for tax paid are available for fuel used by:

- omnibus carriers or taxicabs;

- nonpublic school vehicle operators, exclusively for education-related purposes; and
- volunteer ambulance services.

Significant Legislation

The significant statutory changes to this tax source since 1985 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1985		
First Import	Motor fuel is taxed on a “first import” system.	June 1, 1985
Legislation Enacted in 1988		
First Sale	Diesel motor fuel is taxed on a “first sale” system.	September 1, 1988
Legislation Enacted in 1995		
Diesel Rate	Reduced the diesel motor fuel tax from 10 cents to 8 cents per gallon.	January 1, 1996
Aviation Fuel	Provided an up-front exemption from the motor fuel excise tax for retail sales of aviation gasoline.	September 1, 1995
Legislation Enacted in 2005		
Enforcement Provisions	Required collection of taxes on sales to non-Native Americans on New York reservations.	March 1, 2006
Legislation Enacted in 2006		
Alternative Fuel	Exempted or partially exempted motor fuel tax on alternative fuels, including E85 and B20, sunsets September 1, 2011.	September 1, 2006

TAX LIABILITY

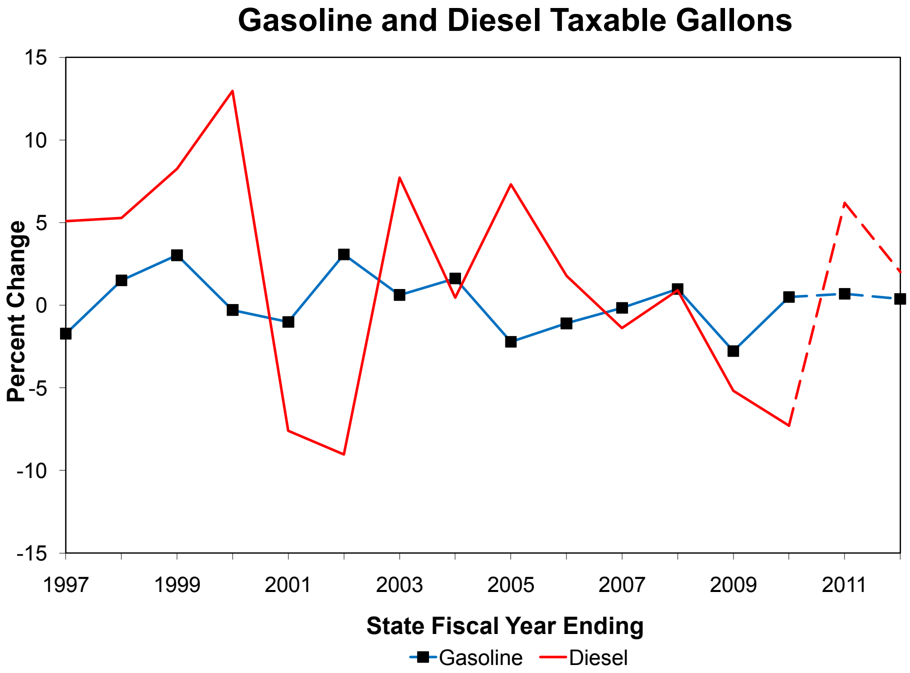
Motor fuel tax collections are a function of the number of gallons of fuel imported into the State by distributors. Gallonage is determined in large part by fuel prices, the amount of fuel held in inventories, the fuel efficiency of motor vehicles and overall state economic performance.

For a more detailed discussion of the methods and models used to develop estimates and projections for the motor fuel tax, please see the *Economic, Revenue and Spending Methodologies* at www.budget.state.ny.us.

Taxable Gallons

Diesel fuel consumption is more susceptible to economic events, while gasoline consumption is driven more heavily by fuel prices.

In 2009-10, gasoline consumption was flat and diesel fuel consumption declined when compared to 2008-09. This was due to a declining economy. Diesel consumption was the lowest since 2002-03. In 2010-11, gasoline consumption is estimated to grow slightly while diesel consumption is estimated to grow by over 6 percent as economic conditions continue to improve. In 2011-12, it is projected that there will be continued growth in gasoline and diesel fuel consumption. The following chart shows consumption trends since 1996-97.



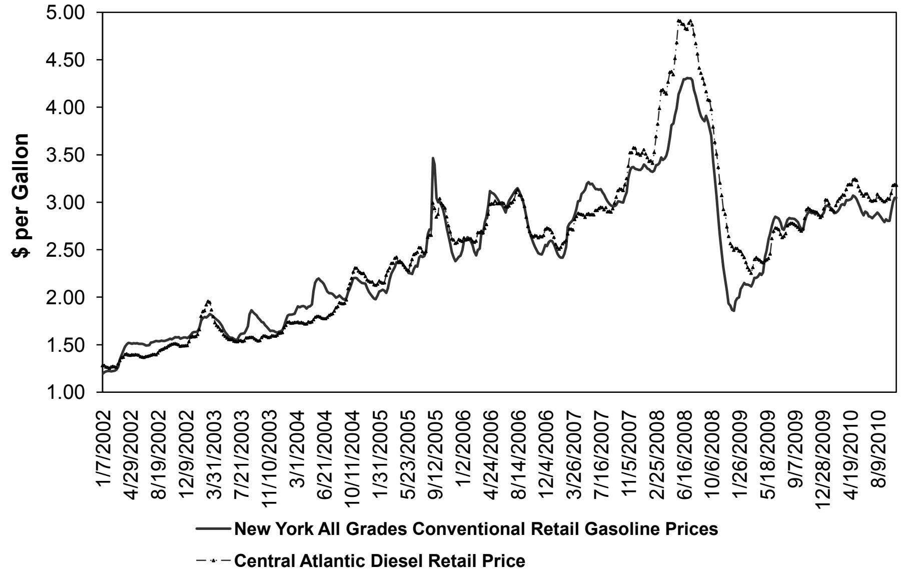
Gasoline and Diesel Gallons				
Fiscal Year	Gasoline (millions of gallons)	Percent Change	Diesel (millions of gallons)	Percent Change
2006-07	5,597	(0.17)	907	(1.38)
2007-08	5,652	0.98	915	0.91
2008-09	5,496	(2.77)	868	(5.17)
2009-10	5,523	0.49	805	(7.30)
2010-11 (Est.)	5,561	0.69	855	6.20
2011-12 (Proj.)	5,582	0.38	872	2.00

The average monthly price of gasoline grew, on a year-over-year basis, almost continuously, commencing in August 2002. This pattern ended in July 2008 when prices peaked at $4.27 per gallon, or nearly 184 percent above the July 2002 level. This peak followed nine consecutive months of year-over-year growth exceeding 15 percent. After this peak, year-over-year growth rates began to decline and were negative for a full year beginning in November 2008. Since then, gasoline prices have increased; though they remain below the July 2008 peak. In fact, July 2010 gasoline prices were 33.3 percent below the July 2008 level.

The average monthly price of diesel peaked in July 2008 at $4.86 per gallon, 250.1 percent higher than the July 2002 price. Similar to gasoline prices, diesel prices experienced year-over-year declines for 13 consecutive months starting in November 2008. Since then, monthly growth rates in diesel fuel prices have usually exceeded 10 percent. However, the July 2010 price was still 37.7 percent below the July 2008 peak.

Since the motor fuel tax and sales tax on motor fuel and diesel motor fuel are capped, State tax revenues have not been directly affected by the volatility in fuel prices. The following chart shows a history of weekly price changes.

Gasoline and Diesel Weekly Prices



Source: U.S. Department of Energy, Energy Information Administration (EIA)

A further discussion of energy prices can be found in the Economic Forecast section of this volume.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2010-11 Estimates

All Funds collections through December are $390.3 million, an increase of $5.4 million, or 1.4 percent above the comparable period in the prior fiscal year.

All Funds receipts for 2010-11 are estimated to be $516 million, an increase of $9.1 million, or 1.8 percent above last year.

2011-12 Projections

All Funds receipts are projected to be $518 million, an increase of $2 million, or 0.4 percent above 2010-11.

General Fund

Motor fuel tax receipts are no longer deposited in the General Fund.

Other Funds

Since 2003, motor fuel tax receipts have been distributed by law to two funds: the Dedicated Highway and Bridge Trust Fund (DHBTF) and the Dedicated Mass

Transportation Trust Fund (DMTTF). The fund distribution since 1993 is shown in the following table.

MOTOR FUEL TAX FUND DISTRIBUTION
(percent)

Effective Date	General Fund	DHBTF[1]	EHF[2]	DMTTF[3]
Prior to April 1, 1993				
Gasoline	78.1	0.0	21.9	0.0
Diesel	78.1	0.0	21.9	0.0
Prior to April 1, 2000				
Gasoline	28.1	50.0	21.9	0.0
Diesel	78.1	0.0	21.9	0.0
Prior to April 1, 2001				
Gasoline	0.0	67.7	21.9	10.4
Diesel	28.1	31.5	21.9	18.5
Prior to April 1, 2003				
Gasoline	0.0	67.7	21.9	10.4
Diesel	0.0	49.2	21.9	28.9
April 1, 2003 and After				
Gasoline	0.0	81.5	0.0	18.5
Diesel	0.0	63.0	0.0	37.0

[1] Dedicated Highway and Bridge Trust Fund.
[2] Emergency Highway Reconditioning and Preservation Fund and the Emergency Highway Construction and Reconstruction Fund.
[3] Dedicated Mass Transportation Trust Fund.

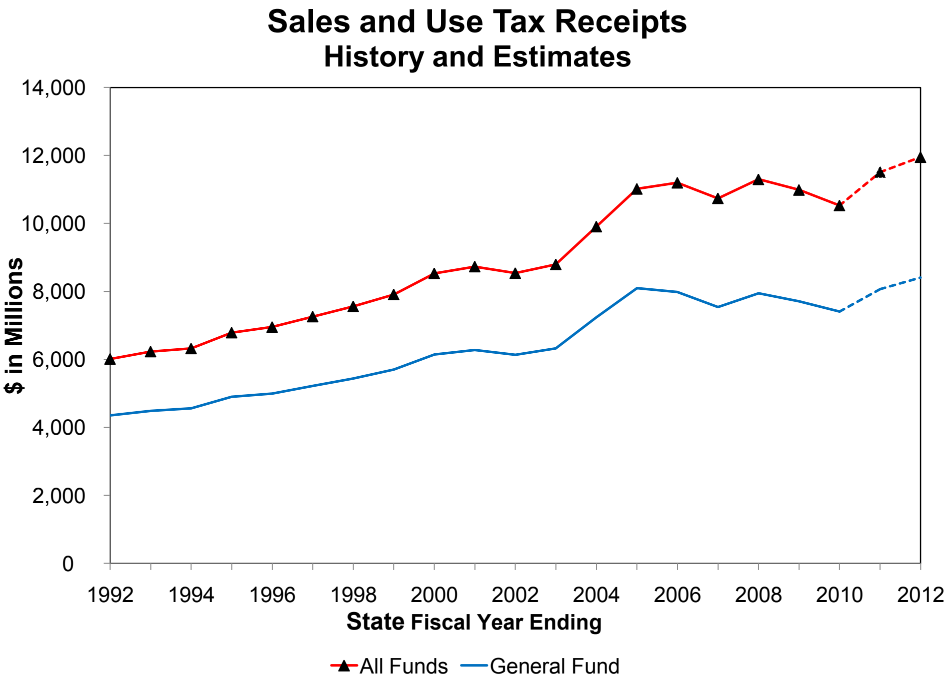
Motor fuel tax receipts in 2010-11 are estimated to be $407.7 million for DHBTF and $108.3 million for DMTTF. Motor fuel tax receipts in 2011-12 are projected to be $409.3 million for DHBTF and $108.7 million for the DMTTF.

SALES AND USE TAX

SALES AND USE TAX
(millions of dollars)

	2009-10 Actual	2010-11 Estimated	Change	Percent Change	2011-12 Projected	Change	Percent Change
General Fund	7,404.5	8,062.5	658.0	8.9	8,406.1	343.6	4.3
LGAC	2,466.5	2,687.5	221.0	9.0	2,801.9	114.4	4.3
MTOAF	656.5	762.0	105.5	16.1	742.0	(20.0)	(2.6)
All Funds	10,527.5	11,512.0	984.5	9.4	11,950.0	438.0	3.8

Note: Totals may differ due to rounding.



SALES AND USE TAX BY FUND
(millions of dollars)

	Gross General Fund	Refunds	General Fund	Special Revenue Funds[1]	Debt Service Funds[2]	All Funds Receipts
2001-02	6,174	43	6,131	365	2,044	8,540
2002-03	6,390	62	6,328	362	2,106	8,796
2003-04	7,300	59	7,241	399	2,267	9,907
2004-05	8,143	49	8,094	429	2,493	11,016
2005-06	8,048	70	7,978	603	2,615	11,196
2006-07	7,593	54	7,539	688	2,512	10,739
2007-08	8,009	64	7,945	705	2,646	11,296
2008-09	7,771	64	7,707	711	2,567	10,985
2009-10	7,458	53	7,405	656	2,467	10,528
Estimated						
2010-11	8,140	77	8,063	762	2,688	11,512
2011-12						
Current Law	8,434	60	8,374	742	2,791	11,907
Proposed Law	8,466	60	8,406	742	2,802	11,950

[1] Mass Transportation Operating Assistance Fund.

[2] Local Government Assistance Corporation Fund.

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- improve sales tax compliance as part of the Tax Modernization Project; and
- extend for one year the full or partial exemptions on E85, CNG, hydrogen and B20 when purchased for use in a motor vehicle engine.

DESCRIPTION

Tax Base

In general, all retail sales of tangible personal property are taxed under Article 28 of the Tax Law unless specifically exempt, but services are taxable only if they are enumerated in the Tax Law.

Specifically, the sales tax is applied to receipts from the retail sale of:

- tangible personal property (unless specifically exempt);
- certain gas, electricity, refrigeration and steam and telephone service;
- selected services;
- food and beverages sold by restaurants, taverns and caterers;
- hotel occupancy; and
- certain admission charges and dues.

Examples of taxable services include installing or maintaining tangible personal property and protective and detective services.

Tax Rate

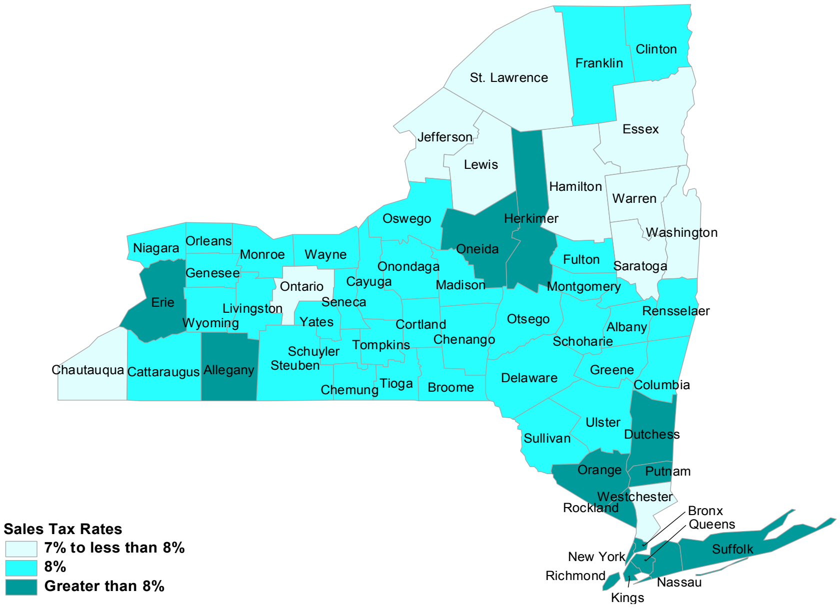
The sales and compensating use tax was enacted in 1965 at the rate of 2 percent. The tax rate was increased to 3 percent in 1969, to 4 percent in 1971 and to 4.25 percent in 2003. The rate reverted to 4 percent on June 1, 2005. Please see the "Comparison of New York State Tax Structure with Other States" section for further information on the tax rate.

Effective June 1, 2006, the State sales tax rate on motor fuel and diesel motor fuel was capped at 8 cents per gallon.

An additional 5 percent sales tax is imposed on the receipts from the sale of telephone entertainment services that are exclusively delivered aurally.

Counties and cities are authorized to impose general sales tax rates up to 3 percent. Of the 57 counties and the 20 cities (including New York City) that impose the general sales tax, 51 counties and 3 cities received legislative authority to temporarily impose additional rates of tax above the statutory 3 percent general sales tax rate. Over 88 percent of the State's population resides in an area where the tax rate equals or exceeds 8 percent. On August 1, 2009, the sales tax rate in New York City went from 4 to 4.5 percent.

Combined State and Local Sales Tax Rates by County
Effective June 1, 2010



An additional 0.375 percent sales and use tax is imposed in the 12-county Metropolitan Commuter Transportation District (MCTD). All proceeds from the additional MCTD tax are earmarked for the Mass Transportation Operating Assistance Fund (MTOAF).

Administration

There are currently 570,000 sales tax vendors selling taxable property or services who are required to register with the Department of Taxation and Finance. The 2008-09 Enacted Budget provided for a sales tax vendor registration program. This registration program provides a means to update taxpayer information, delete obsolete registrations, and collect new data to support administration of the sales tax. A $50 vendor registration application fee is to be paid by existing monthly and quarterly vendors.

Vendors generally are required to remit the tax quarterly. However, vendors who collect more than $300,000 of taxable sales in one of the immediately preceding four quarters must remit the tax monthly by the twentieth of the month following the month of collection. Vendors collecting less than $3,000 yearly may elect to file annually, in March.

Vendors collecting more than $500,000 annually in State and local tax are required to remit the tax by electronic funds transfer (EFT). Collections for the first 22 days of the month must be remitted electronically or by certified check within three business days thereafter. Legislation enacted in 1992 started the EFT program, originally with the threshold for mandatory participation at $5 million in annual tax liability. Legislation in 1994, 1995, and 2002 reduced the threshold to $4 million, $1 million and to the current $500,000 threshold, respectively. Nearly 64 percent of sales tax receipts are remitted by the approximately 5,800 vendors that are required to remit by EFT. Proposed legislation would mandate that all filers e-file a sales tax return.

To reduce tax evasion, special provisions for remitting the sales tax on motor fuel and cigarettes have been enacted. Since 1985, the sales tax on gasoline has been remitted by the first importer of the fuel into New York. Prior to 2006, the tax was prepaid at a per gallon rate based on regional prices. Currently, the pre-payment is fixed at 14 cents per gallon for upstate and 14¾ cents in the MCTD region. Legislation enacted in 1995 required prepayment of the sales tax on cigarettes. The tax is prepaid by cigarette agents at the same time as payment for cigarette excise tax stamps. The cigarette prepayment rate was recently increased from 7 percent to 8 percent.

SALES TAX VENDORS AND TAXABLE SALES

Filing Status	Number of Active Vendors*	Percent of Total Vendors	Percent of State and Local Receipts
Monthly EFT	5,769	1.0	64.3
Monthly Non-EFT	35,718	6.3	22.5
Quarterly	246,245	43.2	12.9
Annual	282,463	49.5	0.3
Total	570,195	100.0	100.0

* Vendors identified as of November 12, 2010.
Selling period March 1, 2008 through February 28, 2009.
Source: New York State Department of Taxation and Finance.

Sales tax vendors are allowed to retain a portion of the sales tax that they have collected, both as partial compensation for the administrative costs of collecting and remitting the tax and as an incentive for timely payment of the tax to the State. Effective September 1, 2006, the vendor allowance was increased to 5 percent of tax liability, up to a maximum of $175 per quarter for returns filed on time. This cap increased to $200 on March 1, 2007. Effective September 1, 2010, monthly venders are no longer eligible to receive the vendor credit.

Tax Expenditures

A myriad of exemptions from the sales tax have been enacted over the life of the tax. Broad exemptions have been provided for sales for resale and for machinery and equipment used in production or in research and development. These particular exemptions prevent multiple taxation of the same property, a situation known as tax pyramiding.

Other exemptions, such as sales to exempt organizations, certain vending machine sales and certain other coin-operated sales, are also provided. Legal, medical and other professional services, sales of real property, and rental payments are also excluded from the base of the sales tax. For further details, please see the Tax Expenditure Report.

Significant Legislation

The significant statutory changes to this tax source since its inception are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1965		
Reimpose	Imposed a 2 percent sales and use tax on retail sales or use of tangible personal property.	August 1, 1965
Legislation Enacted in 1969		
Rate Increase	Increased the sales tax rate to 3 percent.	April 1, 1969
Legislation Enacted in 1971		
Rate Increase	Increased the sales tax rate to 4 percent.	June 1, 1971
Legislation Enacted in 1975		
March Prepayment	Imposed a March prepayment under the sales tax.	1975 and after
Legislation Enacted in 1977		
Fuel Use Tax	Added an eight percent sales tax component to the fuel use tax.	1977 and after
Legislation Enacted in 1978		
Residential Fuel	Provided phasing in the exemption for residential energy use. It was fully exempted on October 1, 1980.	January 1, 1979
Fuel Use Tax	Reduced the sales tax component from eight to seven percent.	1978 and after
Legislation Enacted in 1981		
MTA	Imposed the MTA sales tax at 0.25 percent.	1981 and after
Legislation Enacted in 1985		
Gasoline Tax Payment	Required sales tax on gasoline pre-paid upon importation of fuel into the State. (The same requirement applied to diesel fuel in 1988.)	June 1, 1985
MTA	The Mass Transportation and Operating Assistance Fund (MTOAF) was created. The rate was one-quarter of one percent.	September 1, 1985
Legislation Enacted in 1989		
Base Broadening	Broadened the sales tax base to impose tax on parking, protective and detective services, building maintenance, interior design services, auto leasing, and 900 numbers.	1989 and after
Legislation Enacted in 1990		
Cable Television	Exempted cable television service from the tax.	September 1, 1990
LGAC	Created the Local Government Assistance Corporation (LGAC). One-fourth of State four-cent sales tax collections were earmarked to the LGAC.	1990 and after
Legislation Enacted in 1991		
March prepayment	Ended March prepayment.	1993 and after
Legislation Enacted in 1992		
EFTs	Established Electric funds transfer (EFT) for large vendors.	1992 and after
Alternative Fuel Vehicles	Exempted the additional cost of new alternative fuel vehicles above the sales price of comparable gasoline or diesel powered vehicles from tax. Expired February 29, 2005.	September 1, 1992
Legislation Enacted in 1993		
Information and Entertainment	Imposed the tax on information and entertainment services (5%).	1993 and after
Legislation Enacted in 1994		
Racehorses	Exempted certain registered racehorses used in authorized pari-mutuel events.	June 1, 1994
Vendor Allowance	Enacted the vendor allowance credit for timely filed quarterly or annual returns at the rate of 1.5 percent of State sales tax collected up to a maximum of $100 per return.	September 1,1994
Legislation Enacted in 1995		
Homeowners' Associations	Exempted dues paid to homeowners' associations operating social or athletic facilities for their members.	September 1, 1995
Meteorological Services	Exempted the sale of meteorological information services.	September 1, 1995

SALES AND USE TAX

Subject	Description	Effective Date
Legislation Enacted in 1996		
Clothing and Footwear	Exempted clothing and footwear priced under $500 for the one-week period of January 18-24, 1997.	January 18-24, 1997
Promotional Materials	Expanded the exemption for certain printed promotional materials distributed by mail to customers in New York State.	March 1, 1997
Legislation Enacted in 1997		
Buses	Provided an exemption for buses used to transport persons for hire, and related parts and services.	December 1, 1997
Clothing and Footwear	Exempted clothing priced under $100 for the one-week periods of September 1-7, 1997, and September 1-7, 1998.	September 1-7, 1997 September 1-7, 1998
	Permanently exempted clothing priced under $100.	December 1, 1999
Homeowner Association Parking	Exempted parking services sold by a homeowners' association to its members.	December 1, 1997
Various Coin-Operated Devices	Raised the exemption threshold for bulk vending machine sales to 50 cents from 25 cents, exempted coin-operated car washes, exempted coin-operated photocopying costing under 50 cents, and exempted certain hot food and beverages sold through vending machines.	December 1, 1997
Vendor Allowance	Increased the sales tax vendor allowance from 1.5 percent to 3.5 percent of State tax collected, capped at $150 per quarter.	March 1, 1999
Legislation Enacted in 1998		
Clothing and Footwear	Included footwear in the September 1-7, 1998, temporary clothing exemption and raised exemption threshold to $500 from $100.	September 1-7, 1998
	Exempted clothing and footwear priced under $500 during the January 17-24, 1999 period.	January 17-24, 1999
	Included footwear in the permanent clothing exemption beginning on December 1, 1999, and raised exemption threshold from $100 to $110.	December 1, 1999
Coin Telephones	Increased the exemption threshold for coin-operated telephone calls to 25 cents from 10 cents.	September 1, 1998
College Textbooks	Exempted textbooks purchased by college students that are required for their courses.	June 1, 1998
Computer Hardware	Exempted computer system hardware used to design and develop computer software for sale.	June 1, 1998
Internet Access Service	Codified State policy of exempting charges for Internet access services.	February 1, 1997
Materialmen	Allowed certain materialmen (i.e., building materials suppliers) to remit sales tax returns on either a cash or an accrual basis.	June 1, 1999
Telephone Central Office Equipment	Expanded existing exemption for telephone central office equipment to include such equipment or apparatus used in amplifying, receiving, processing, transmitting, and re-transmitting telephone signals.	September 1, 1998
Alternate Fuel Vehicle Refueling Equipment	Receipts from the sale and installation of alternative fuel vehicle refueling equipment is exempt from tax. Expired February 29, 2005.	March 1, 1998
Legislation Enacted in 1999		
Clothing and Footwear	Changed the effective date of the permanent exemption for clothing and footwear priced under $110 from December 1, 1999, to March 1, 2000.	March 1, 2000
	Temporarily exempted clothing and footwear priced under $500 for the periods of September 1-7, 1999, and January 15-21, 2000.	September 1-7, 1999 January 15-21, 2000
Computer Hardware	Provided an exemption for computer system hardware used to design and develop Internet web sites for sale.	March 1, 2001
Farm Production	Expanded the farm production exemption to include fencing and certain building materials. Converted the refund for tax paid on motor vehicles to an exemption.	March 1, 2001
Telecommunications Equipment	Exempted machinery and equipment used to upgrade cable television systems to provide telecommunications services for sale and to provide Internet access service for sale.	March 1, 2001
Theater	Exempted certain tangible personal property and services used in the production of live dramatic or musical arts performances.	March 1, 2001

Subject	Description	Effective Date
Legislation Enacted in 2000		
Farm Production	Exempted property, building materials and utility services used in farm production. Expanded definition of farms to include commercial horse boarding operations.	September 1, 2000
Internet Data Centers	Exempted computer hardware and software purchased by Internet Data Centers (web site hosting facilities) operating in New York. Included required equipment such as air conditioning systems, power systems, raised flooring, cabling, and the services related to the exempted property.	September 1, 2000
Vending Machines	Exempted food and drink sold through a vending machine that costs 75 cents or less.	September 1, 2000
Telecommunications Equipment and Communications Services	Exempted property used to provide telecommunications services, Internet access services, or a combination thereof. Also, exempted certain services to the exempted property, such as installation and maintenance. Provided a three-year exemption for machinery and equipment used to upgrade cable television systems to a digital-based technology.	September 1, 2000
Radio and Television Broadcasting	Exempted machinery and equipment (including parts, tools and supplies) and certain services used for production and transmission of live or recorded programs. A broadcaster includes Federal communications licensed radio and television stations, television networks, and cable television networks.	September 1, 2000
Pollution Abatement	Exempted manufacturing and industrial pollution control equipment and machinery.	March 1, 2001
Transmission and Distribution of Electricity and Gas	Phased out over three years the sales tax on the separately purchased transmission of electricity and gas.	September 1, 2000
Empire Zones	Exempted property and services used or consumed by qualified businesses within Empire Zones.	March 1, 2001
Purchase of Gas or Electricity from Outside of New York	Imposed a compensating use tax on purchases of gas or electricity from vendors located outside of New York.	June 1, 2000
Legislation Enacted in 2001		
Empire Zones	Added eight new Empire Zones, for a total of 66 zones throughout the State. Four of the eight new Empire Zones became effective immediately.	October 29, 2001
Legislation Enacted in 2002		
Temporary Exemption in Liberty Zone	Temporarily exempted most tangible personal property priced under $500 sold in the Liberty and Resurgence Zones in New York City for the periods of June 9-11, July 9-11 and August 20-22, 2002.	June 1, 2002
EFT Threshold Change	Lowered the Electronic Fund Transfer threshold from $1 million to $500,000.	September 1, 2002
Legislation Enacted in 2003		
Surcharge	Raised the State sales tax rate from 4 to 4.25 percent through May 31, 2005.	June 1, 2003
Temporary repeal of clothing exemption	Temporarily repealed the exemption on items of clothing and footwear priced under $110 and created two clothing exemption weeks at the same $110 threshold.	June 1, 2003
Use tax line on PIT return	Required a line on PIT returns for taxpayers to report use tax owed.	May 24, 2003
Legislation Enacted in 2004		
Extend Temporary Repeal of Clothing Exemption	Extended the expiration date to May 31, 2005, for the temporary repeal of the exemption on items of clothing and footwear priced under $110 and created two exemption weeks at the same $110 threshold.	August 20, 2004
Aircraft Parts and Services	Exempted parts used exclusively to maintain, repair, overhaul or rebuild aircraft parts or aircraft services.	December 1, 2004
Vessels Providing Local Transit	Provided refunds and credits for certain vessels used to provide transit service and certain related property and services.	December 1, 2004

Subject	Description	Effective Date
Contractors and Affiliates	Required contractors, subcontractors and their affiliates who make deliveries of taxable services or tangible personal property valued at more than $300,000 to New York locations to register as sales tax vendors.	August 20, 2004
Legislation Enacted in 2005		
Extend Temporary Repeal of Clothing Exemption	Extended the expiration date to March 31, 2007, for the temporary repeal of the exemption on items of clothing and footwear priced under $110 and created two exemption weeks at the same $110 threshold. If the 2006-07 Executive Budget included tax cut proposals, the year-round exemption for such items takes effect on April 1, 2006.	April 12, 2005
Manhattan Parking Vendors	Made permanent the sales tax enforcement provisions relating to parking vendors in Manhattan.	April 12, 2005
Metropolitan Commuter Transportation District Sales Tax Rate	Increased the sales and use tax rate in the Metropolitan Commuter Transportation District (MTCD) from 0.25 percent to 0.375 percent.	June 1, 2005
Sales Tax Medicaid Intercept	Provided for the State to calculate an optional local “Medicaid amount”, and for such amount to be intercepted from local sales tax distributions and directed to the State.	April 12, 2005
Amusement Park Admissions	Extended until October 1, 2006, the 75 percent sales tax exemption of the amount charged for admission to a qualifying place of amusement.	April 12, 2005
Lower Manhattan Office Space	Provided sales tax exemption for property used to furnish or equip lower Manhattan office space.	August 30, 2005
Residential Solar Energy	Exempted the sale and installation of residential solar energy systems equipment from sales and use taxes.	July 26, 2005
In Bay Car Washes	Exempted coin-operated or fully automated car washing, waxing or vacuuming from sales and use taxes.	December 1, 2005
Marine Terminal Facilities	Exempted certain machinery and equipment for marine container terminals in New York City from State sales and use taxes.	December 1, 2005
Waste Transfer Stations	Exempted certain waste transfer services from State and local sales and use taxes.	December 1, 2005
State Charter Credit Unions	Exempted State charter credit unions from sales and use taxes.	March 1, 2006
Direct Shipment of Wine	Provided for certain limited direct interstate shipments of wine.	August 11, 2005
Electricity	Exempted electricity, refrigeration and steam services produced by a cogeneration facility owned by certain cooperative corporations.	March 1, 2006
Legislation Enacted in 2006		
Clothing	Permanently exempted clothing and footwear priced under $110.	April 1, 2006
Vendor Allowance	Increased vendor credit from 3.5 percent to 5 percent and increased the cap from $150 to $175. The cap increased to $200 on March 1, 2007.	September 1, 2006
Amusement Parks	Exempted admissions to amusement parks permanently.	October 1, 2006
Motor Fuel Cap	Limits the amount of state sales tax imposed on motor fuels to 8 cents per gallon. Localities imposing a sales tax have the option either to continue to use the percentage rate method or to change to a cents-per-gallon method of computing sales tax.	June 1, 2006
Alternative Fuels	Exempted or partially exempted sales tax on alternative fuels, including E85 and B20, sunsets September 1, 2011.	September 1, 2006
Cabaret	Exempted admissions to cabaret.	December 1, 2006
Credit Card	Allowed refund of sales tax paid on certain credit card accounts.	January 1, 2007
Legislation Enacted in 2008		
Sales – Exempt Organizations	Required nonprofit charitable, educational, religious and other organizations to collect sales tax on retail sales of certain property and services.	September 1, 2008
SUT – Vendor Registration	Required all vendors to register with the Department of Taxation and Finance. The registration fee is $50.	November 1, 2008
Sales Tax Nexus	Created an evidentiary presumption that certain sellers using New York residents to solicit sales in the State are vendors required to collect tax.	April 23, 2008

Subject	Description	Effective Date
Sales – Voluntary Disclosure and Compliance (VDC) Program	Allowed eligible taxpayers to voluntarily disclose and pay certain underreported tax liabilities and interest.	April 23, 2008
Legislation Enacted in 2009		
Transportation	Imposed a sales tax on certain transportation services (specifically black cars, limousines, and livery vehicles).	June 1, 2009
Compliance	Increased tax compliance efforts (i.e. third-party reporting).	June 1, 2009
Prepaid Rate Cigarettes	Increased prepaid sales tax rate on cigarettes from seven to eight percent of the base retail price.	June 1, 2009
Affiliate Nexus	Expanded the definition of vendor to preclude certain retailers from avoiding the tax.	June 1, 2009
Abusive Schemes	Narrowed the exemption for commercial aircraft and the use tax exemption for motor vehicles, vessels and aircraft.	June 1, 2009
Empire Zone	Converted the QEZE sales tax exemption to a refundable credit.	April 1, 2009
Legislation Enacted in 2010		
Sales - Clothing and Footwear Exemption	Repealed the $110 clothing and footwear exemption until March 31, 2012; Temporary $55 exemption from April 1, 2011, to March 31, 2012.	October 1, 2010
Sales - Vendor Credit	Repealed the vendor credit for monthly filers.	September 1, 2010
Sales - Room Remarketer	Clarified that room remarketers must collect sales and NYC occupancy taxes.	September 1, 2010
Transportation	Exempted livery service in NYC from the sales tax.	June 1, 2009
Affiliate Nexus	Narrowed affiliate nexus provisions.	June 1, 2009
PLC	Repealed private label credit card provisions.	June 1, 2010

TAX LIABILITY

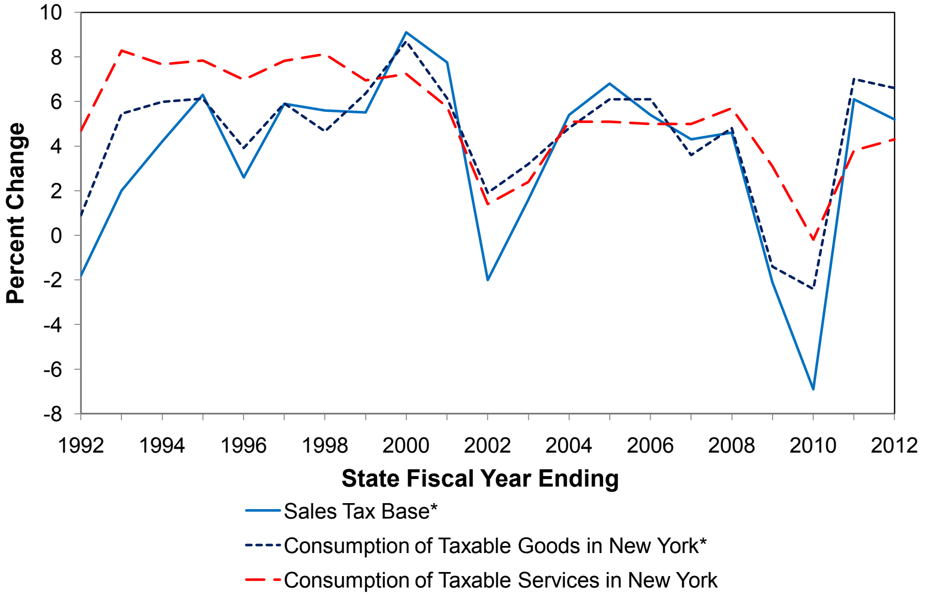
The sales and compensating use tax, which accounted for about 18.3 percent of 2009-10 All Funds tax receipts, is the second largest State tax revenue source (the personal income tax is the largest).

In the long run, sales tax receipts are a function of changes in the tax rate and economic activity, as measured by such factors as disposable income and employment. Short-run fluctuations in receipts can result from rapid changes in consumer prices, auto sales, and home sales. The following table and graphs show the growth rate of major economic factors affecting the sales tax. For a more detailed discussion of the methods and models used to develop estimates and projections for the sales and use tax, please see the *Economic, Revenue and Spending Methodologies* at www.budget.state.ny.us.

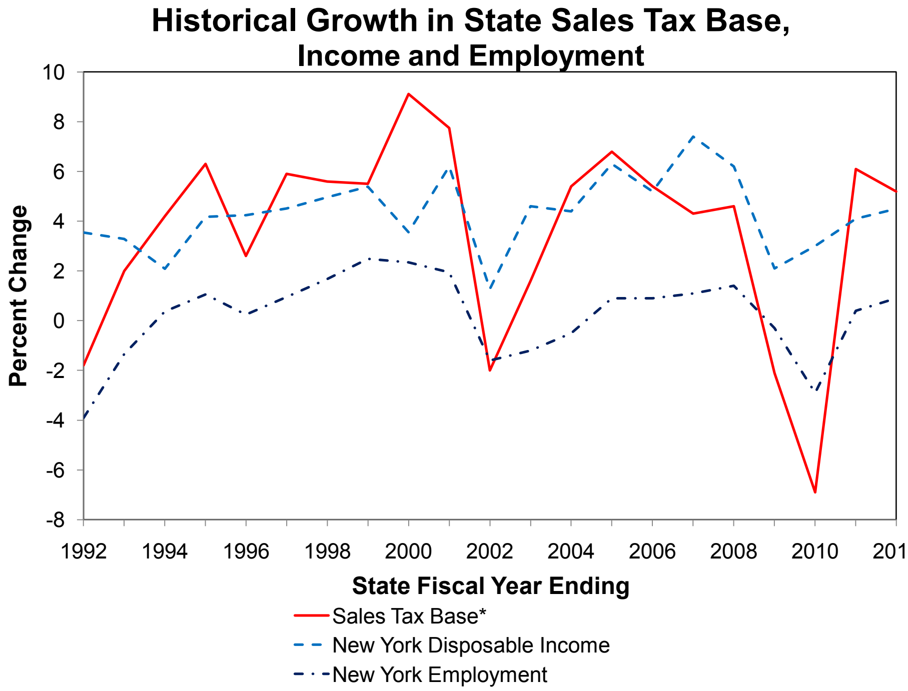
MAJOR ECONOMIC FACTORS AFFECTING SALES TAX RECEIPTS
STATE FISCAL YEARS 2002-03 to 2011-12
Percent Change

									Estimated	Projected
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Consumption of Taxable Goods in NY	3.2	4.8	6.1	6.1	3.6	4.8	(1.4)	(2.4)	7.0	6.6
Consumption of Taxable Services in NY	2.4	5.1	5.1	5.0	5.0	5.7	3.1	(0.2)	3.8	4.3
NY Employment	(1.2)	(0.5)	0.9	0.9	1.1	1.4	(0.3)	(2.9)	0.4	0.9
NY Disposable Income	4.6	4.4	6.3	5.2	7.4	6.2	2.1	3.0	4.1	4.5
NY Nominal Value of New Auto and Light Truck Sales	3.1	2.7	(1.8)	0.3	(2.6)	8.0	(20.4)	(5.4)	16.9	11.4
Sales Tax Base	1.6	5.4	6.8	5.4	4.3	4.6	(2.1)	(6.9)	6.1	5.2

Historical Growth in State Sales Tax Base and Taxable Consumption



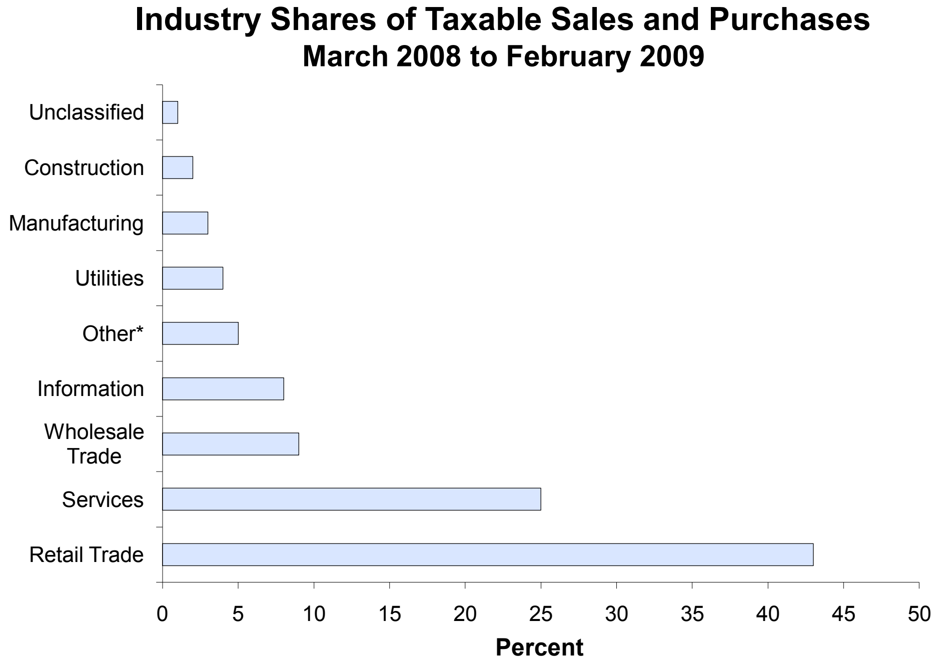
*Based on Division of the Budget estimate



Historical Growth in State Sales Tax Base, Income and Employment

*Based on Division of the Budget estimate

Although numerous exemptions from tax on the sales of tangible personal property have been enacted (see *Tax Expenditure Report*), roughly 43 percent of total taxable sales and purchases subject to the sales and use tax are remitted by the retail trade industry. This includes, for example, automobile dealers and general merchandise stores. The service industry (including accommodations, food and administrative services) remits roughly 25 percent of the statewide total and accounts for the next largest share of taxable sales and purchases.



Industry Shares of Taxable Sales and Purchases
March 2008 to February 2009

*Includes Agriculture, Mining, Transportation, FIRE, Education and Government.
Source: New York State Department of Taxation and Finance.

States are currently constrained by United States Supreme Court decisions limiting which out-of-state vendors can be required to collect the sales tax on a state's behalf. In general, a vendor must have some physical presence or nexus in a state to be required to collect that particular state's sales tax. Thus, a compensating use tax complements the sales tax, and is imposed on the use of taxable property or services in-state, if the transaction has not already been subject to tax. This will include, for example, taxable items purchased via mail order or on the Internet if the vendor has no taxable nexus with New York. The use tax also applies to certain uses of self-produced property or services. With some exceptions, the base of the use tax mirrors the base of the sales tax. The use tax is remitted by the purchaser directly to the New York State Department of Taxation and Finance, but low compliance for certain transactions remains an ongoing concern.

Effective with the 2003 personal income tax filing year, the New York State personal income tax return contains a line on which taxpayers may enter the amount of use tax owed for the preceding calendar year. New York State collected $16.9 million from this program for calendar year 2006, $22.6 million in calendar year 2007, $37.9 million in calendar year 2008 and $36.9 million in calendar year 2009.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2010-11 Estimates

All Funds collections through December are $8,657.1 million, an increase of $655.5 million, or 8.2 percent above the comparable period in the prior fiscal year.

All Funds receipts for 2010-11 are estimated to be $11,512 million, an increase of $984.5 million, or 9.4 percent above last year. This includes an estimated $330 million from the elimination of the clothing and footwear exemption.

The base growth (i.e. growth absent law changes) rates in the first three quarters of 2010-11 were 7.5, 8.1 and 4.2 percent, respectively. The last quarter base growth rate is estimated to be 4.8 percent.

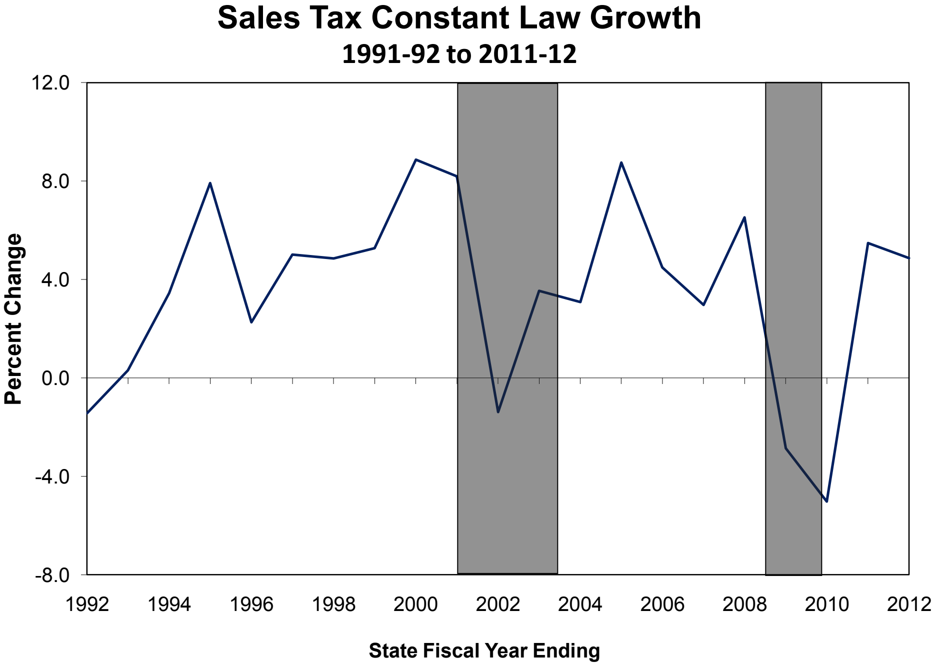
Consumption of New York taxable goods and consumption of taxable services are expected to increase by 7 percent and 3.8 percent, respectively. Disposable income and light truck sales are estimated to increase by 4.1 percent and 16.9 percent, respectively. These factors help to explain the increase in the rate of growth in the sales tax base from a decline of 6.9 percent in 2009-10 to an estimated 6.1 percent in 2010-11. The cap on motor fuel and diesel motor fuel, which was imposed in 2006, is estimated to reduce State revenues by over $200 million in 2010-11, roughly $50 million higher than in 2009-10.

2011-12 Projections

All Funds receipts are projected to be $11,950 million, an increase of $438 million, or 3.8 percent above 2010-11.

Consumption of New York taxable goods and consumption of taxable services are expected to increase by 6.6 percent and 4.3 percent, respectively. Disposable income and light truck sales are estimated to increase by 4.5 percent and 11.4 percent, respectively. These factors help to explain the increase in the rate of growth in the sales tax base by 5.2 percent in 2011-12. The proposed law change that would enact the Tax Modernization Project is expected to increase receipts by $43 million in 2011-12.

The primary risk factor for the sales and use tax estimate is the economic forecast, which provides the basis for the sales tax estimates. Unexpected slowdowns in income, employment, auto sales, and the associated consumption of taxable goods would adversely impact the level of taxable sales.



Note: Shading represents State economic recessions

General Fund

Direct deposits to the General Fund for 2010-11 are estimated to be $8,062.5 million, an increase of $658 million, or 8.9 percent above 2009-10 receipts. General Fund receipts for 2011-12 are projected to be $8,406.1 million.

Local Government Assistance Corporation Fund

The Local Government Assistance Corporation (LGAC) was created in 1990 to help the State eliminate its annual spring borrowing. To pay the debt service on the bonds issued by LGAC, the State has diverted an amount equal to the yield of one-fourth of net sales and use tax collections from the 4 percent statewide sales tax to the Local Government Assistance Tax Fund (LGATF). Sales tax deposits to LGATF were $2,466.5 million in 2009-10 and are estimated to be $2,687.5 million in 2010-11, and $2,801.9 million in 2011-12. LGATF receipts in excess of debt service requirements on LGAC bonds are transferred to the General Fund.

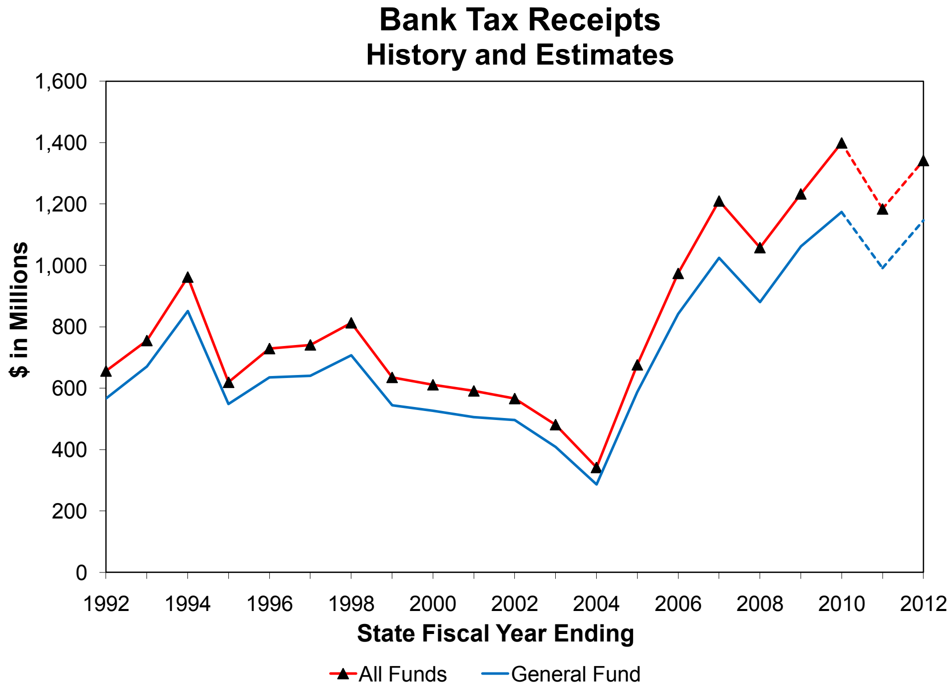
Mass Transportation Operating Assistance Fund

The Mass Transportation Operating Assistance Fund (MTOA) was created in 1981 to finance State public transportation needs. MTOA derives part of its revenues from the 0.375 percent sales and compensating use tax imposed in the MCTD. MTOA, which received $656.5 million in sales and use tax receipts in 2009-10, will receive an estimated $762 million in 2010-11 and $742 million in 2011-12. The entire proceeds from the MCTD tax are earmarked for MTOA. The MTA collections figure for March, which is fixed at a pre-determined amount for purposes of reconciling accounts at the close of each fiscal year, will be administratively increased to $50 million. This is roughly $45 million higher than in 2009-10 and will similarly reduce the April amount.

BANK TAX

BANK TAX (millions of dollars)	2009-10 Actual	2010-11 Estimated	Change	Percent Change	2011-12 Projected	Change	Percent Change
General Fund	1,173.3	991.0	(182.3)	(15.5)	1,147.0	156.0	15.7
Other Funds	226.0	193.0	(33.0)	(14.6)	195.0	2.0	1.0
All Funds	1,399.3	1,184.0	(215.3)	(15.4)	1,342.0	158.0	13.3

Note: Totals may differ due to rounding.



BANK TAX BY FUND (millions of dollars)	Gross General Fund	Refunds	General Fund	Gross Special Revenue Funds	Refunds	Special Revenue Funds[1]	All Funds Receipts
2001-02	566	70	496	80	10	70	566
2002-03	524	115	409	84	12	72	481
2003-04	431	145	286	71	15	56	342
2004-05	662	75	587	100	11	89	676
2005-06	941	99	842	150	17	133	975
2006-07	1,098	74	1,024	193	7	186	1,210
2007-08	1,002	122	880	196	18	178	1,058
2008-09	1,296	234	1,062	208	36	172	1,234
2009-10	1,243	70	1,173	241	15	226	1,399
Estimated							
2010-11	1,193	202	991	233	40	193	1,184
2011-12							
Current Law	1,247	100	1,147	215	20	195	1,342
Proposed Law	1,247	100	1,147	215	20	195	1,342

[1] Receipts from the MTA business tax surcharge are deposited in the Mass Transportation Operating Assistance Fund.

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- extend the financial services investment tax credit through October 1, 2015;
- extend Gramm-Leach Bliley provisions for two years and make related bank tax provisions permanent;
- make technical corrections to the Empire Zones program to grant the Department of Economic Development (DED) the authority to continue to monitor Empire Zone Program compliance and to decertify non-complying businesses; and
- reform and improve the job creating effectiveness of the Excelsior economic development program.

DESCRIPTION

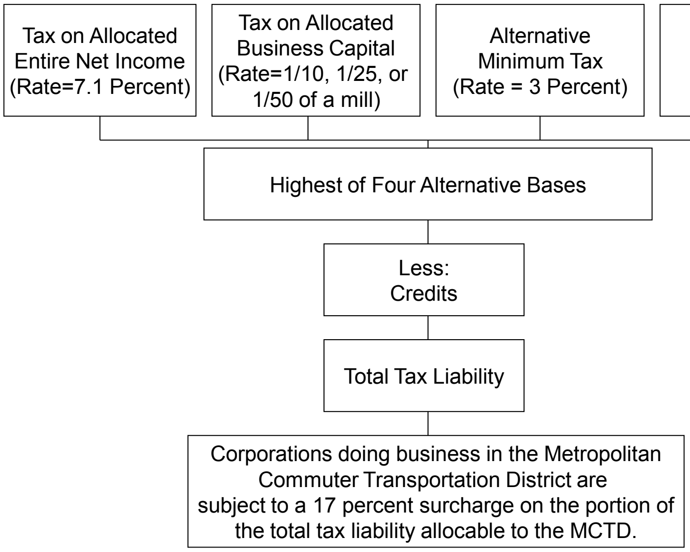
Tax Base and Rate

The bank tax is levied by Article 32 of the Tax Law on banking corporations conducting business in New York State. Banking corporations are classified as commercial banks, savings banks, savings and loan associations, foreign banks and alien banks. Foreign banks are those formed under the laws of another state, whereas alien banks consist of banks formed under the laws of another country. Article 32 bank tax liability is computed under four alternative bases, with tax due based on the highest tax calculated under the four alternative bases. The four alternative bases are:

- An entire net income (ENI) base, which begins with Federal taxable income before net operating loss deductions and special deductions, and is further adjusted by the exclusion, deduction or addition of certain items. The resulting base is allocated to New York and subject to a tax rate of 7.1 percent.
- An alternative minimum tax (AMT) base imposed at a rate of 3 percent of entire net income (as calculated above) and further adjusted to reflect certain Federal tax preference items and adjustments, and State-specific net operating loss (NOL) modifications.
- An assets base imposed at the rate of 1/10, 1/25, or 1/50 of a mill of taxable assets allocated to New York. The applicable rate depends on the size of the bank's net worth relative to assets and mortgages as a percent of total assets.
- A fixed dollar minimum tax of $250.

Banks conducting business in the Metropolitan Commuter Transportation District (MCTD) are also subject to a 17 percent surcharge on the portion of the total tax liability allocated to the MCTD. The collections from the surcharge are deposited into the Mass Transportation Operating Assistance Fund (MTOAF).

Bank Tax Article 32 – Current Law



Administration

Banks that reasonably expect their tax liability to exceed $1,000 for the current tax year are required to make a mandatory first installment of estimated tax and three additional estimated payments. The mandatory first installment is due 75 days from the end date of a taxpayer's fiscal year. The remaining three estimated tax payments are due on the fifteen day of the third month of the fiscal year quarter. The majority of the taxpayers have a fiscal year that ends December 31. The mandatory first installment for these taxpayers is due March 15 with the remaining three estimated payments due on June 15, September 15 and December 15. A final payment is also required of all taxpayers. This payment is due with the mandatory first installment. Taxpayers that expect their tax liability to exceed $100,000 for the current tax year are required to make a mandatory first installment equal to 40 percent of their prior year liability. Taxpayers with expected liability greater than $1,000 and less than $100,000 must make a mandatory first installment equal to 25 percent of their prior year liability.

Tax Expenditures

Tax expenditures are defined as features of the Tax Law that by exclusion, exemption, deduction, allowance, credit, deferral, preferential tax rate or other statutory provision reduce the amount of a taxpayer’s liability to the State by providing either economic incentives or tax relief to particular entities to achieve a public purpose. The major tax expenditure items for the bank tax include: the deduction of 60 percent of dividends, gains, and losses from subsidiary capital, the deduction of 22.5 percent of interest income from government obligations, and the international banking facility formula allocation election. For a more detailed discussion of tax expenditures, see the *Annual Report on New York State Tax Expenditures*, prepared by the Department of Taxation and Finance and the Division of the Budget.

Significant Legislation

The significant statutory changes to this tax source are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1981		
Metropolitan Transportation Business Tax Surcharge	Imposed a temporary 17 percent surcharge on business taxpayers on tax liability allocated to the Metropolitan Commuter Transportation District (MCTD). Collections are dedicated in support of the Metropolitan Transportation Authority.	January 1, 1982
Legislation Enacted in 1985		
Omnibus Tax Equity and Enforcement Act of 1985	Provided several new enforcement tools in enhancing tax compliance, including new penalties for tax evaders, enhancement of existing penalties, and broader investigatory power for the Department of Taxation and Finance.	Various dates in 1985
Legislation Enacted in 1986		
Economic Development Zones	Authorized the designation of selected towns, counties, cities and villages as Economic Development Zones (EDZs), which provided certain tax benefits to qualifying businesses.	January 1, 1986
Legislation Enacted in 1987		
Business Tax Reform and Rate Reduction Act of 1987	Reformed the tax by lowering the rate, restructuring the alternative bases to include a broader range of items of income, and limited the usefulness of the ITC.	January 1, 1987
Legislation Enacted in 1990		
Temporary Business Tax Surcharge	Imposed a temporary 15 percent tax surcharge on the tax liability of certain business taxpayers. The surcharge was extended twice.	January 1, 1990
Legislation Enacted in 1994		
Subsidiary Capital	Specified subsidiary capital taxation rules to allow deduction of 60 percent of the amount by which gains exceed losses from such capital, to the extent such gains and losses were taken into account in determining taxable income.	January 1, 1994
Legislation Enacted in 1997		
Net Operating Loss	Allowed banks to claim a net operating loss deduction (NOLD) for losses incurred on or after January 1, 2001.	January 1, 2001
Legislation Enacted in 1998		
Investment Tax Credit	Allowed bank taxpayers that are brokers/dealers in securities to claim a credit for equipment used in broker/dealer activities and in activities connected with broker/dealer operations.	October 1, 1998
Legislation Enacted in 1999		
Rate Reduction — ENI	Reduced the ENI tax rate from 9 percent to 7.5 percent in phases over three years.	June 30, 2000
Legislation Enacted in 2000		
Empire Zones (EZ)	Transformed Economic Development Zones (EDZ) to Empire Zones, effectively providing for virtual "tax free" zones for certain businesses. The enhanced benefits include a tax credit for real property taxes, a tax reduction credit, and a sales and use tax exemption. The tax reduction credit may be applied against the fixed dollar minimum tax, which may reduce the taxpayer's liability to zero.	January 1, 2001
Legislation Enacted in 2001		
Bank Tax Extension	Provided an extension of the bank tax that had expired for commercial banks. The tax did not apply to tax years beginning on or after January 1, 2001. Sunsets for tax years beginning on or after January 1, 2003.	January 1, 2001
Legislation Enacted in 2002		

Subject	Description	Effective Date
Estimated Payment Requirement	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year's liability for those corporate taxpayers whose prior year's liability exceeds $100,000.	January 1, 2003
Empire Zones Program	Amended to clarify certain provisions and implement new components for several credit calculations.	Various
Legislation Enacted in 2003		
Bank Tax Extension	Provided an extension of the Bank Tax that had expired for commercial banks. The tax did not apply to tax years beginning on or after January 1, 2003. Sunsets for tax years beginning on or after January 1, 2005.	January 1, 2003
Modification for Decoupling from Federal Bonus Depreciation	Required taxpayers to make modifications to Federal taxable income for property placed in service on or after June 1, 2003, that qualified for the special bonus depreciation allowance allowed by the Federal Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003. The modifications do not apply to qualified resurgence zone property or qualified New York Liberty Zone property.	2003
Intangible Holding Companies	Required taxpayers to modify Federal taxable income relating to certain royalty and interest payments made with respect to the use of intangible property by related members or royalty and interest payments received from related members.	January 1, 2003
Superfund-Brownfield Tax Credits	Created tax incentives for the redevelopment of brownfields through three refundable tax credits: a redevelopment tax credit, a real property tax credit, and an environmental remediation insurance credit. There are three components in the redevelopment tax credit: a site preparation component; a tangible property component; and an onsite groundwater remediation component.	April 1, 2005
Legislation Enacted in 2004		
Bank Tax Extension	Extended for one year, until January 1, 2006, certain provisions of the Tax Law and the Administrative Code of the City of New York relating to the taxation of commercial banks. Also extended for two years, until January 1, 2006, the provisions relating to the Federal *Gramm-Leach-Bliley Act*.	January 1, 2004
Empire Zones Program Extension	Extended the Empire Zones (EZ) Program to March 31, 2005.	January 1, 2004
Legislation Enacted in 2005		
Single Sales Apportionment	Changed the computation used to allocate income and assets to New York by banking corporations taxed under Article 32 that are owned by a bank or bank holding company and are substantially engaged in providing services to an investment company from a three-factor formula of receipts, deposits, and wages to a single receipts factor.	These provisions were phased in over a three-year period starting in tax year 2006, and were fully effective for tax years beginning on or after January 1, 2008
Legislation Enacted in 2006		
Empire Zones / Significant Investments	Provided that a Qualifying Empire Zone Enterprise (QEZE) with fewer than 200 existing jobs that makes an investment of $750 million or more and creates 500 new jobs is deemed a "new business," qualifying the taxpayer for a 50 percent refund of its EZ Investment Tax Credits and EZ Employment Incentive Credits. Also authorized such taxpayers to select their program benefit period to start either upon certification (current law), or when the qualifying investment is placed in service.	January 1, 2006
Eliminate S Corporation Differential Tax Base	Eliminated the tax base imposed on S Corporations that was calculated using the difference between the corporate franchise tax rate and the top personal income tax rate. The rate had been changed, and the base was also suspended during tax years 2003 through 2005 when the PIT surcharge was in effect. Elimination of this base conformed the State tax code with Federal treatment of S corporations.	January 1, 2003 (note that the differential had already been suspended - eff. date reflected first instance of non-imposition)

Subject	Description	Effective Date
Bank Tax Extension	Extended for two years, until January 1, 2008, certain provisions of the Tax Law and the Administrative Code of the City of New York relating to the taxation of commercial banks. Also extended for two years, until January 1, 2008, the provisions relating to the Federal *Gramm-Leach-Bliley Act.*	January 1, 2006
Legislation Enacted in 2007		
Rate Reduction - ENI	Lowered the rate imposed on the ENI base from 7.5 percent to 7.1 percent.	January 1, 2007
REIT/RIC Loophole Closer	Closed a loophole and conformed to Federal rules by eliminating, over a five-year period, the deduction for certain dividends received by a parent company from a Real Estate Investment Trust (REIT) or Regulated Investment Company (RIC) to ensure that either the REIT or RIC or its shareholders pay tax on the income earned by the REIT or RIC. Banks with taxable assets of $8 billion or less were excluded from these provisions.	January 1, 2007
Taxation of Certain Banking Corporations	Established conditions under which certain corporations that elected to be taxable under Article 9-A of the Tax Law, or are required to be taxed under Article 9-A pursuant to the Gramm-Leach Bliley transitional provisions, will become taxable under Article 32 of the Tax Law. These conditions included: ceasing to be a taxpayer under Article 9-A; becoming subject to the $800 fixed dollar minimum tax for inactive corporations; having no wages or receipts allocable to New York or otherwise becoming inactive; being acquired by an unaffiliated corporation in a transaction under Section 338(h)(3) of the Internal Revenue Code; or becoming engaged in a different line of business as a result of acquiring a certain amount of assets. Meeting any one of these conditions resulted in the corporation becoming taxable as a bank under Article 32. The legislation also provided that an investment subsidiary of a bank or bank holding company was included in the definition of a banking corporation and taxable under Article 32.	January 1, 2007
Bank Tax Extension	Extended for two years, until January 1, 2010, certain provisions of the Tax Law and the Administrative Code of the City of New York relating to the taxation of commercial banks. Also extended for two years, until January 1, 2010, the provisions relating to the Federal *Gramm-Leach-Bliley Act.* This extension also amended the provisions so that bank taxpayers no longer meeting the definition of doing a banking business would be moved to taxation under the corporation franchise tax.	January 1, 2008
Acceleration of Single Sales Apportionment Phase-In	Accelerated, by one year, the final phase-in of the move to sales-only apportionment of income and assets for certain banking corporations.	January 1, 2007
Amendment to Add-Back Provisions Related to Certain Intangible Income	Eliminated the add-back of certain intangible income and related interest for bank taxpayers, if the corporation receiving the income from the bank is included in a New York State combined return.	January 1, 2007
GLB Conforming Provision Amendments	Amended the Enacted Budget provisions that required bank taxpayers no longer meeting the definition of doing a banking business to file under the corporation franchise tax to delay the effect of those provisions by clarifying that taxpayers no longer meeting the definition of doing a banking business as a result of transactions which occurred prior to January 1, 2008 would not be subject to the said amended provisions for tax years 2008 and 2009. Also provided language notifying potentially affected taxpayers of the prospective 2010 law change.	June 29, 2007
Legislation Enacted in 2008		
Taxation of Credit Card Banks	Imposed the bank tax on banks with credit card operations in New York State that exceed 1,000 customers or accepting vendors, or $1 million in receipts from customers or vendors.	January 1, 2008

Subject	Description	Effective Date
REITs/RICs Provisions Technical and Substantive Amendments	Amended the 2007 REITs/RICs provisions to make closely-held REIT and RIC subsidiaries includable in a combined return with the closest affiliate in the corporate group that is a New York State taxpayer, regardless of the article under which that taxpayer files its New York return. Previously, REITs and RICs were treated as Article 9-A corporation franchise taxpayers by definition. This legislation also made other technical and conforming changes.	January 1, 2008
Qualified Production Activity Income (QPAI) Deduction	Decoupled New York State from Internal Revenue Code (IRC) Section 199 and required taxpayers to add back the qualified production activities income (QPAI) deduction when computing New York taxable income.	January 1, 2008
Mandatory First Installment Percentage	Required taxpayers with a prior year tax liability over $100,000 to calculate their mandatory first installment payment of franchise tax and MTA surcharge at 30 percent, instead of the previous 25 percent, of the prior year's tax liability. Taxpayers with a prior year liability between $1,000 and $100,000 would continue to use the 25 percent amount to calculate their mandatory first installment.	January 1, 2009
MTA Surcharge Extender	Extended the temporary MTA surcharge imposed on bank taxpayers which was scheduled to sunset for taxable years ending before December 31, 2009. The legislation extended the sunset date for four years to taxable years ending before December 31, 2013.	April 23, 2008
GLB Provision Amendments	Eliminated language notifying taxpayers of a potential law change that would prospectively tax corporations no longer meeting the definition of doing a banking business under the corporation franchise tax instead of the bank tax.	September 25, 2008
Brownfields Program Reform	Amended the tangible property credit component to impose a limit of the lesser of $35 million or three times the qualifying costs used in calculating the site preparation and on-site groundwater components for projects accepted into the Brownfields program after June 22, 2008. Qualifying manufacturers accepted after this date would be subject to a tangible property credit component limitation equal to the lesser of $45 million or six times the qualifying costs used in calculating the site preparation and on-site groundwater components. Several other changes were effected, including increasing the credit percentages awarded under the site preparation and on-site groundwater components to as much as fifty percent.	June 23, 2008
Legislation Enacted in 2009		
Tax Treatment of Overcapitalized Insurance Companies	Required overcapitalized captive insurance companies to file a combined report with the corporation that directly owns or controls over 50 percent of the voting stock of the captive if that corporation is a bank taxpayer.	January 1, 2009
Estimated Payment Requirement	Increased the first quarterly installment of estimated tax from 30 percent to 40 percent of the prior year's liability for those corporate taxpayers whose liability exceeds $100,000.	January 1, 2010
Empire Zones Reform	Reformed the Empire Zones program. All companies that had been certified for at least three years were subjected to a performance review focusing on cost/benefit ratios.	January 1, 2008
	Reduced the QEZE real property tax credit by 25 percent and disqualified firms for the State QEZE sales tax refund/credit unless the sale qualified for a local sales and use tax refund or credit.	April 1, 2009
	Moved program sunset from December 30, 2011 to June 30, 2010.	April 7, 2009
Legislation Enacted in 2010		
Conform to Federal Bad Debt Provisions	Conformed the State bank tax deduction for bad debts to the calculations provided for in the Internal Revenue Code for Federal tax purposes.	January 1, 2010
Historic Properties Tax Credits	Allowed banks to claim the nonresidential tax credit for historic properties.	January 1, 2010
Make REITs/RICs Loophole Closer Permanent	Made permanent the provisions that address the closely-held Real Estate Investment trusts and Regulated Investment Companies loophole, which would have otherwise expired on December 31, 2010	August 11, 2010

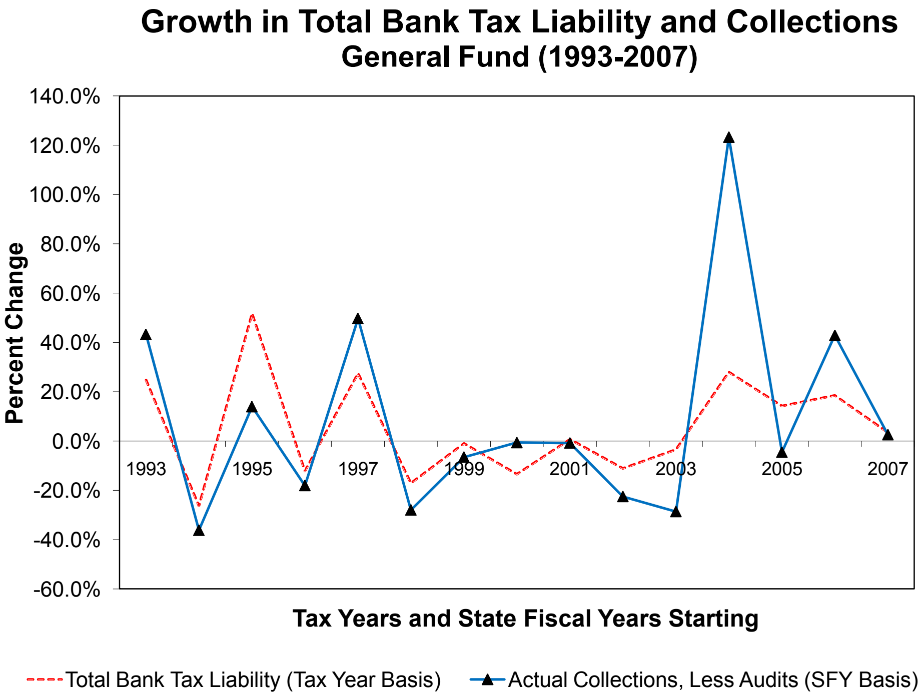
Subject	Description	Effective Date
REIT Technical Amendments	Clarified that certain publicly traded REITs with fractional ownership shares in non-related U.S. REITs are not subject to provisions relating to "closely-held" REITs that were enacted in 2008-09.	August 11. 2010
Technical Changes to Empire Zones Program	Made technical corrections to the 2009-10 Enacted Budget Empire Zones Program changes. Clarified that the Legislature intended to decertify certain businesses retroactively to the 2008 tax year, clarified reporting provisions, and allowed qualified investment projects to claim the investment tax credit and employee incentive tax credit after June 30, 2010.	August 11, 2010
GLB and Bank Tax Provisions	Extended for one year bank tax reform provisions from 1985 to 1987, as well as provisions that were intended to temporarily address regulatory changes from the Federal Gramm-Leach-Bliley Act.	January 1, 2010
Excelsior Jobs Program	Established a new economic development program to provide incentives based on job creation, investment and research and development expenditures in New York State.	July 1, 2010
Tax Credit Deferral	Capped aggregate business related tax credit claims at $2 million per taxpayer for each of tax years 2010, 2011 and 2012. The total amount of credits deferred can be claimed by affected taxpayers on returns for tax years 2013, 2014 and 2015.	January 1, 2010

TAX LIABILITY

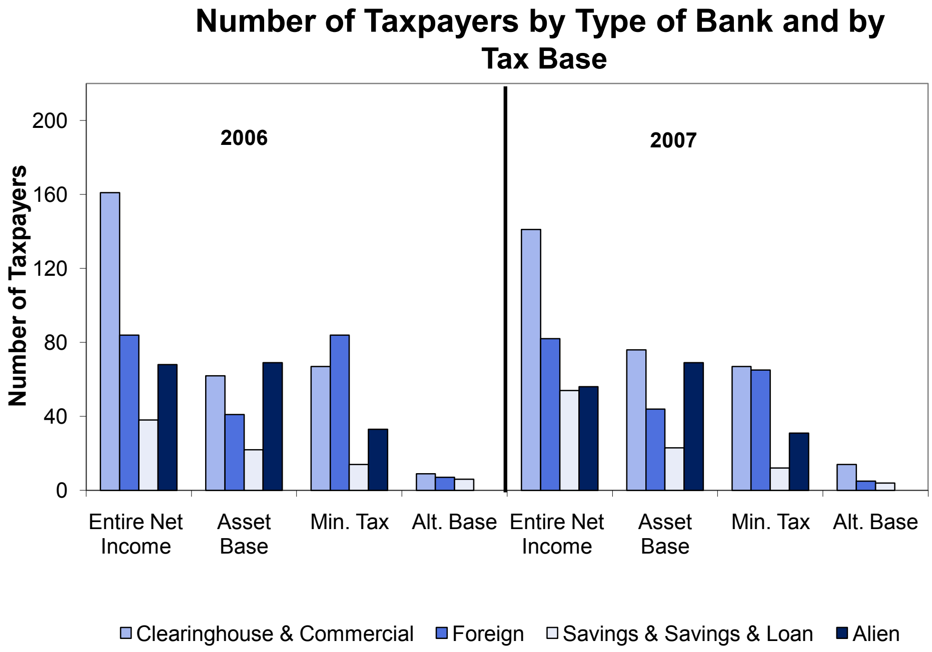
The Bank Tax Study File, which is compiled by the Department of Taxation and Finance's Office of Tax Policy Analysis (OTPA), contains the most recent tax data available on all banks filing under Article 32. The most current liability information is for the 2007 tax year. The annual study of bank tax returns indicates that 743 taxpayers filed tax returns as banking corporations for 2007, a 2.9 percent decrease from the previous year.

The link between underlying bank tax liability and collections in any given State fiscal year is often obscured by the timing of payments, the carry forward of prior year losses or credits, and the reconciliation of prior year liabilities. Tax collections are the net payments and adjustments made by taxpayers on returns and extensions over the course of a State fiscal year. For taxpayers with a fiscal year ending December thirty-one, collections include a mandatory first installment payment that is paid in March and is based on 40 percent of the prior year's liability. In addition, these taxpayers are required to make estimated payments, based on projected liability for the current tax year, in June, September, and December. A final payment is made in March of the subsequent year. Calendar year taxpayers make up the majority of the tax base. Taxpayers may make periodic adjustments to these payments after the close of the tax year as their actual liability for a given tax year becomes more definite. Tax liability in the current year is based on estimated performance for that year. It is generally calculated by tax bases, tax rates, special deductions and additions, losses and tax credits. The Tax Law grants taxpayers extensions that allow the filing of returns up to two years after the end of their tax year.

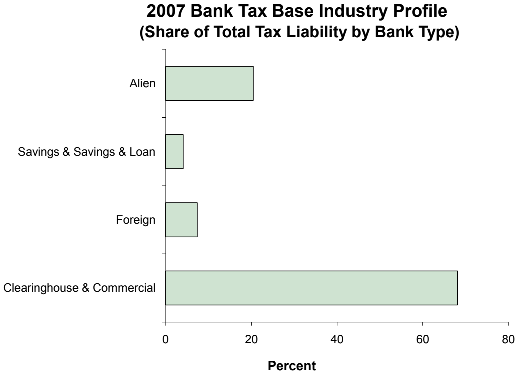
The following graph compares historical bank tax liability and collections. Since taxpayers must pay estimated taxes months in advance of knowing actual liability, it is difficult for taxpayers to determine the proper level of payments needed over the course of a year. This is especially true if business or economic conditions change. The graph illustrates the significant volatility in the underlying relationship between payments and liability, which is further compounded by the potential difference between a taxpayer's tax year and the State fiscal year.

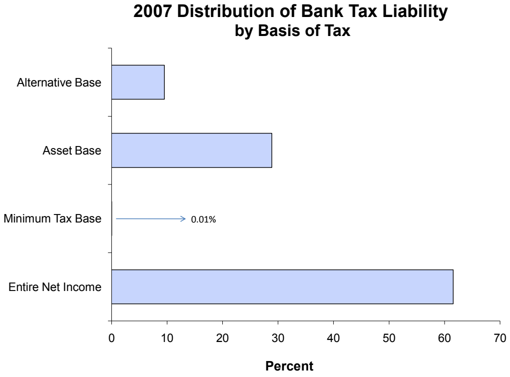


The number of taxpayers decreased by 2.9 percent from 2006 to 2007. Decreases occurred in foreign (i.e. domiciled in another state) banks (20 banks, 9.3 percent) and alien (domiciled outside the U.S.) banks (14 banks, 8.2 percent). The number of taxpayers classified as Clearinghouse and commercial banks was basically unchanged while the number of savings banks increased (13 banks, 16.3 percent). Though not easily visible in the following graph, from 2006 to 2007 the minimum taxable income and entire net income bases had declines of 11.6 and 5.1 percent, respectively. The number of taxpayers utilizing the asset base increased 9.3 percent while the alternative minimum tax base increased by 4.5 percent from 2006 to 2007.



The following charts show that clearinghouse and commercial banking institutions accounted for 68.1 percent of total tax liability in 2007, and alien banking institutions accounted for 20.4 percent of total liability, while foreign banking institutions and savings banks and savings and loan institutions together accounted for the remaining 11.5 percent of total liability. On a basis of tax concept, payments under the ENI base comprised over 61 percent of total tax liability.





RECEIPTS: ESTIMATES AND PROJECTIONS

BANK TAX
(millions of dollars)

	Actual 2009-10	Estimated 2010-11	Change	Percent Change	Projected 2011-12	Change	Percent Change
General Fund							
Non-Audit Receipts	931	801	(130)	(13.9)	992	191	23.8
Audit Receipts	242	190	(53)	(21.7)	155	(35)	(18.3)
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**1,173**	**991**	**(182)**	**(15.5)**	**1,147**	**156**	**15.7**
Other Funds							
Non-Audit Receipts	179	159	(19)	(10.8)	185	26	16.2
Audit Receipts	48	34	(14)	(28.8)	10	(24)	(70.4)
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**226**	**193**	**(33)**	**(14.6)**	**195**	**2**	**1.0**
All Funds							
Non-Audit Receipts	1,109	960	(149)	(13.4)	1,177	217	22.6
Audit Receipts	290	224	(66)	(22.9)	165	(59)	(26.2)
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**1,399**	**1,184**	**(215)**	**(15.4)**	**1,342**	**158**	**13.3**

All Funds

2010-11 Estimates

All Funds collections through December are approximately $816.4 million, a decrease of $143.1 million, or 14.9 percent below the comparable period in the prior fiscal year. The year-to-date decrease is attributable to 2009-10 refunds that were delayed until April 2010-11 to manage cash-flow needs. Adjusting for this management of refunds, collections are up $12.9 million or 1.3 percent above the comparable period in the prior fiscal year. Year-to-date gross receipts less audits, the majority of which are estimated payments on calendar year liability, are 3.3 percent higher than the same period in the previous fiscal year. Additionally, audit receipts are also higher than last year, up 6.3 percent from 2009-10 as a result of two large audit settlements compared to one large audit settlement in 2009-10.

All Funds receipts for 2010-11 are estimated to be $1,184 million, a decrease of $215.3 million, or 15.4 percent below last year. Adjusted for the refund management in 2009-10, 2010-11 receipts are estimated to decline $59.3 million, or 4.2 percent. This decrease is mainly attributable to lower expected audit receipts in 2010-11. Audit receipts are estimated to be lower by $66.4 million, or 22.9 percent from 2009-10. Gross receipts less audits are estimated to be flat compared to 2009-10.

2011-12 Projections

All Funds receipts are projected to be $1,342 million, an increase of $158 million, or 13.3 percent above 2010-11. Adjusted for the management of refunds from 2009-10 to 2010-11, receipts are projected to increase $2 million, or 0.2 percent.

General Fund

General Fund collections for 2010-11 are estimated at $991 million, a decrease of $182.3 million or 15.5 percent from 2009-10. The decrease reflects the same trends impacting 2010-11 All Funds receipts.

General Fund collections for 2011-12 are projected to be $1,147 million, an increase of $156 million, or 15.7 percent. The increase reflects the same trends impacting All Funds receipts for 2011-12.

Other Funds

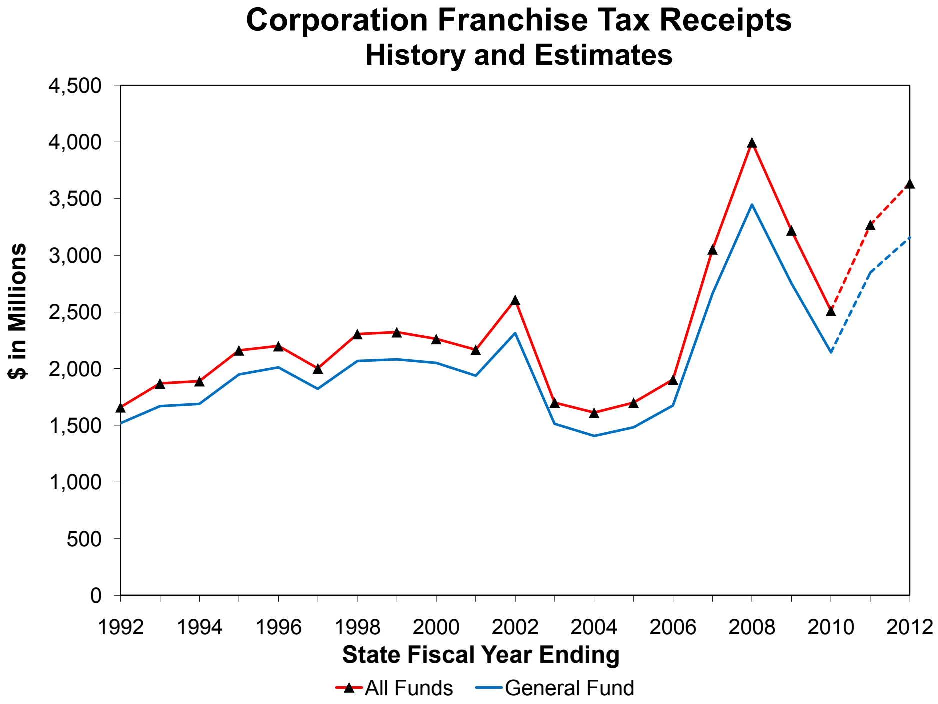
Bank tax receipts from surcharges deposited to MTOAF generally reflect the All Funds trends described above. MTOAF bank tax receipts for 2010-11 reflect year-to-date trends and are estimated at $193 million. Surcharge receipts for 2011-12 are projected to be $195 million.

CORPORATION FRANCHISE TAX

CORPORATION FRANCHISE TAX
(millions of dollars)

	2009-10 Actual	2010-11 Estimated	Change	Percent Change	2011-12 Projected	Change	Percent Change
General Fund	2,144.6	2,848.0	703.4	32.8	3,157.0	309.0	10.8
Other Funds	366.3	422.0	55.7	15.2	479.0	57.0	13.5
All Funds	2,510.9	3,270.0	759.1	30.2	3,636.0	366.0	11.2

Note: Totals may differ due to rounding.



Corporation Franchise Tax Receipts
History and Estimates

CORPORATION FRANCHISE TAX BY FUND
(millions of dollars)

	Gross General Fund	Refunds	General Fund	Gross Special Revenue Funds	Refunds	Special Revenue Funds[1]	All Funds Receipts
2001-02	2,012	497	1,515	236	48	188	1,703
2002-03	1,942	535	1,407	243	38	205	1,612
2003-04	2,006	524	1,482	266	48	218	1,700
2004-05	2,289	431	1,858	293	40	253	2,111
2005-06	3,070	405	2,665	415	27	388	3,053
2006-07	4,010	333	3,677	576	25	551	4,228
2007-08	4,035	589	3,446	592	41	551	3,997
2008-09	3,579	824	2,755	542	76	465	3,220
2009-10	2,942	797	2,145	442	76	366	2,511
Estimated							
2010-11	3,473	625	2,848	482	60	422	3,270
2011-12							
Current Law	3,728	571	3,157	544	65	479	3,636
Proposed Law	3,728	571	3,157	544	65	479	3,636

[1] Receipts from the MTA business tax surcharge are deposited in the Mass Transportation Operating Assistance Fund.

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- make permanent tax shelter reporting provisions that are set to expire on July 1, 2011;
- make technical corrections to the Empire Zones program to grant the Department of Economic Development (DED) the authority to continue to monitor Empire Zone Program compliance and to decertify non-complying businesses;
- extend Gramm-Leach Bliley provisions for two years;
- extend the financial services investment tax credit through October 1, 2015;
- provide the Commissioner of the Division of Housing and Community Renewal (DHCR) authorization to allocate an additional $4 million in low income housing tax credits; and
- reform and improve the job creating effectiveness of the Excelsior economic development program.

DESCRIPTION

Tax Base and Rate

The corporation franchise tax is levied by Articles 9-A and 13 of the Tax Law. Article 9-A imposes a tax on domestic and foreign corporations for the privilege of exercising their corporate franchise or doing business, employing capital, owning or leasing property, or maintaining an office in New York. The Article 9-A tax is made up of business entities classified as either C corporations or S corporations. Article 13 of the Tax Law imposes a 9 percent tax on certain not-for-profit entities on business income earned from activities not related to their exempt purpose.

For C corporations, current law requires corporation franchise tax liability to be computed under four alternative bases, with tax due based on the highest tax calculated under the four alternative bases. The four alternative bases are:

- An entire net income (ENI) base, which begins with Federal taxable income before net operating loss deductions and special deductions, and is further adjusted by the exclusion, deduction or addition of certain items. The resulting base is allocated to New York and subject to a tax rate of 7.1 percent. Qualifying small businesses with an ENI of $290,000 or less, certain manufacturers and qualified emerging technology companies are subject to a rate of 6.5 percent.
- An alternative minimum tax (AMT) base imposed at a rate of 1.5 percent of the ENI (as calculated above) further adjusted to reflect certain Federal tax preference items and adjustments and State-specific net operating loss (NOL) modifications.

- A capital base, imposed at a rate of 0.15 percent on business and investment capital allocated to New York. For most taxpayers, the maximum annual tax is $10 million for tax year 2010 and will revert to $1 million thereafter.

- A fixed dollar minimum tax, which is based on a taxpayer's NY source gross income as shown in the following schedule.

C AND S CORPORATIONS
FIXED DOLLAR MINIMUM TAXES

Gross Income	C Corp Min Tax	S Corp Min Tax
$100,000 or less	$25	$25
$100,001 - $250,000	$75	$50
$250,001 - $500,000	$175	$175
$500,001 - $1,000,000	$500	$300
$1,000,001 - $5,000,000	$1,500	$1,000
$5,000,001 - $25,000,000	$3,500	$3,000
Over $25,000,000	$5,000	$4,500

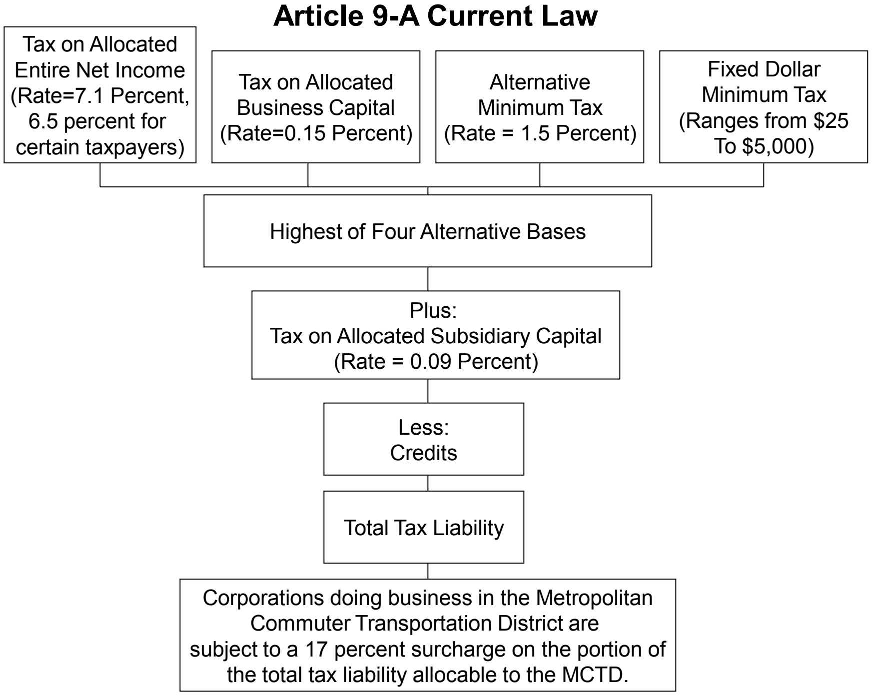
In addition to the tax paid on the highest of the four alternative bases, C corporations also pay a tax of 0.9 mills of each dollar of subsidiary capital allocated to New York State.

S corporations are also subject to a fixed dollar minimum tax imposed at the rates shown in the table above.

Additionally, corporations conducting business in the Metropolitan Commuter Transportation District (MCTD) are subject to a 17 percent surcharge on the portion of the total tax liability computed using the franchise tax rates in effect for the period July 1, 1997, through June 30, 1998, and allocable to the MCTD. The collections from the surcharge are deposited into the Mass Transportation Operating Assistance Fund (MTOAF).

The following flow chart shows how Article 9-A tax liability is computed under the four alternative bases.

Article 9-A Current Law



Administration

Corporations that reasonably expect their tax liability to exceed $1,000 for the current tax year are required to make a mandatory first installment of estimated tax and three additional estimated payments. The mandatory first installment is due 75 days from the end date of a taxpayer's fiscal year. The remaining three estimated tax payments are due on the 15th day of the third month of the fiscal year quarter. The majority of the taxpayers have a fiscal year that ends December 31. The mandatory first installment for these taxpayers is due March 15 with the remaining three estimated payments due on June 15, September 15 and December 15. A final payment is also required of all taxpayers. This payment is due with the mandatory first installment. Taxpayers that expect their tax liability to exceed $100,000 for the current tax year are required to make a mandatory first installment equal to 40 percent of their prior year liability. Taxpayers with expected liability greater than $1,000 and less than $100,000 must make a mandatory first installment equal to 25 percent of their prior year liability.

Tax Expenditures

Tax expenditures are defined as features of the Tax Law that by exclusion, exemption, deduction, allowance, credit, deferral, preferential tax rate or other statutory provisions reduce the amount of a taxpayer’s liability to the State by providing either economic incentives or tax relief to particular entities to achieve a public purpose. The corporate franchise tax structure includes various tax expenditures, and the distribution of these benefits varies widely among firms and industries. Among the major tax expenditure items for the corporate franchise tax are the exclusion of interest, dividends and capital gains from subsidiary capital, the investment tax credit, the Empire Zone, Brownfields and Film Production tax credits, and the preferential tax rates for qualifying small business corporations. For a more detailed discussion of tax expenditures, see the

Annual Report on New York State Tax Expenditures, prepared by the Department of Taxation and Finance and the Division of the Budget.

Significant Legislation

Significant statutory changes to the corporate franchise tax since 1981 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1981		
Metropolitan Transportation Business Tax Surcharge	Imposed on business taxpayers a temporary 17 percent surcharge on tax liability allocated to the Metropolitan Commuter Transportation District (MCTD). Collections are dedicated in support of the Metropolitan Transportation Authority.	January 1, 1982
Legislation Enacted in 1985		
Omnibus Tax Equity and Enforcement Act of 1985	Provided several new enforcement tools for enhancing tax compliance, including new penalties for tax evaders, enhancement of existing penalties, and broader investigatory power for the Department of Taxation and Finance.	Various dates in 1985
Legislation Enacted in 1986		
Economic Development Zones	Authorized the designation of selected towns, counties, cities and villages as Economic Development Zones (EDZs), which provided certain tax benefits to qualifying businesses.	January 1, 1986
Legislation Enacted in 1987		
Business Tax Reform and Rate Reduction Act of 1987	Reformed the tax by lowering the rate, restructuring the alternative bases to include a broader range of items of income, and limited the usefulness of the ITC.	January 1, 1987
Legislation Enacted in 1990		
Temporary Business Tax Surcharge	Imposed a temporary 15 percent tax surcharge on the tax liability of certain business taxpayers. The surcharge was extended twice.	January 1, 1990
Legislation Enacted in 1994		
Depreciation	Changed the Modified Accelerated Cost Recovery System (MACRS) depreciation rule for non-New York property to conform to provisions of the Federal Tax Reform Act of 1986.	January 1, 1994
Limited Liability Companies (LLC) and Limited Liability Partnerships (LLP)	Provided New York State authority for formation of LLCs and LLPs, which are business organizations that provide many of the tax benefits associated with partnerships and the liability protection afforded to corporations.	October 24, 1994
Rate Reduction – Alternative Minimum Tax (AMT)	Reduced rate from 5.0 percent to 3.5 percent.	January 1, 1995
Legislation Enacted in 1997		
Alternative Fuel Vehicle Credit	Provided corporations and individuals with a tax credit for a portion of the cost of purchasing or converting vehicles to operate on alternative fuels.	January 1, 1998
Legislation Enacted in 1998		
Rate Reduction – AMT	Reduced rate from 3.5 percent to 3.0 percent phased in over two years.	June 30, 1998
Investment Tax Credit	Allowed brokers/dealers in securities to claim a credit for equipment or buildings used in broker/dealer activity and in activities connected with broker/dealer operations.	October 1, 1998
Rate Reduction – ENI	Reduced the tax rate from 9 percent to 7.5 percent over a three-year period beginning after June 30, 1999.	June 30, 1999
Legislation Enacted in 1999		
Rate Reduction – AMT	Reduced rate from 3.0 percent to 2.5 percent.	June 30, 2000
EDZ/ZEA Wage Tax Credit	Doubled the existing Economic Development Zone (EDZ) and Zone Equivalent Area (ZEA) wage tax credits.	January 1, 2001

Subject	Description	Effective Date
Legislation Enacted in 2000		
Energy Reform and Reduction	Reformed energy taxation for energy companies, previously taxed under section 186 of Article 9, to pay tax under the Article 9-A corporate franchise tax.	January 1, 2000
Securities and Commodities Brokers or Dealers Customer Sourcing	Allowed securities broker/dealers to allocate receipts, which constitute commissions, margin interest or account maintenance fees, as a service performed at the customer's mailing address.	January 1, 2001
Empire Zones (EZ)	Transformed Economic Development Zones (EDZ) to Empire Zones, effectively providing for virtual "tax free" zones for certain businesses. The enhanced benefits included a tax credit for real property taxes, a tax reduction credit, and a sales and use tax exemption. The tax reduction credit may be applied against the fixed dollar minimum tax, which may reduce the taxpayer's liability to zero.	January 1, 2001
Rate Reduction – S Corporations	Reduced the differential tax rate imposed on S corporations by 45 percent.	June 20, 2003
Rate Reduction – Small Businesses	Reduced the tax rate for small businesses with entire net income of $200,000 or less to 6.85 percent.	June 30, 2003
Legislation Enacted in 2002		
Estimated Payment Requirement	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year's liability for those corporate taxpayers whose prior year's liability exceeds $100,000.	January 1, 2003
Legislation Enacted in 2003		
Modification for Decoupling from Federal Bonus Depreciation	Decoupled from Federal depreciation allowances for property placed in service on or after June 1, 2003, that qualified for the special bonus depreciation allowance allowed by the Federal Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003. The modifications do not apply to qualified resurgence zone property or qualified New York Liberty Zone property.	June 1, 2003
Intangible Holding Companies	Required taxpayers to modify Federal taxable income relating to certain royalty and interest payments made with respect to the use of intangible property by related members or royalty and interest payments received from related members.	January 1, 2003
S Corporation Tax Change	Taxed S corporations on a fixed dollar minimum amount for tax years 2003, 2004 and 2005 only. The fixed dollar minimum amounts are those imposed under Article 9-A, ranging from $100 to $1,500.	January 1, 2003
Superfund-Brownfield Tax Credits	Created tax incentives for the redevelopment of brownfields through three tax credits: a redevelopment tax credit, a real property tax credit, and an environmental remediation insurance credit. There are three components in the redevelopment tax credit: a site preparation component, a tangible property component, and an onsite groundwater remediation component.	April 1, 2005
Legislation Enacted in 2004		
Fixed Dollar Minimum Tax	Provided a temporary adjustment to the corporate franchise tax fixed dollar minimum tax schedule, with tax amounts ranging from $100 to $10,000. Applicable to tax years 2004 and 2005.	January 1, 2004
Empire State Film Production Credit	Provided a new tax credit for film production activity in New York State. The credit was originally scheduled to sunset August 20, 2008.	January 1, 2004
Legislation Enacted in 2005		
Single Sales Apportionment	Changed the computation of a corporation's business allocation percentage from a three-factor formula of payroll, property and receipts to a single receipts factor.	These provisions were phased in over a three-year period starting in tax year 2006, and were fully effective for tax years beginning on or after January 1, 2008

Subject	Description	Effective Date
Empire Zones Amendments / Twelve New Zones	Made significant changes to the Empire Zone/Qualified Empire Zone Enterprise program with respect to zone boundaries, zone designations, taxpayer eligibility, and benefits. Also authorized twelve new Empire Zones.	Changes to eligibility and benefits apply to taxpayers certified on or after April 1, 2005
Small Business Rate Reduction	Lowered the tax rate from 6.85 percent to 6.5 percent for small businesses and expanded the definition of a qualifying small business.	January 1, 2005
Capital Base Increase	Increased the maximum tax due under the capital base alternative from $350,000 to $1 million for all taxpayers, excluding manufacturers.	January 1, 2005
Legislation Enacted in 2006		
Empire Zones / Significant Investments	Provided that a Qualifying Empire Zone Enterprise (QEZE) with fewer than 200 existing jobs that makes an investment of $750 million or more and creates 500 new jobs is deemed a "new business," qualifying the taxpayer for a 50 percent refund of its EZ Investment Tax Credits and EZ Employment Incentive Credits. Also authorized such taxpayers to select their program benefit period to start either upon certification (current law), or when the qualifying investment is placed in service.	January 1, 2006
Eliminate S Corporation Differential Tax Base	Eliminated the tax base imposed on S Corporations that was calculated using the difference between the corporate franchise tax rate and the top personal income tax rate. The rate had been changed, and the base was also suspended during tax years 2003 through 2005 when the PIT surcharge was in effect. Elimination of this base conforms the State tax code with Federal treatment of S corporations.	January 1, 2003 (note that the differential had already been suspended - eff. date reflects first instance of non-imposition)
Empire State Film Production Tax Credit	Increased the annual credit limitation from $25 million to $60 million annually for 2006 through 2011. Extended credit to December 31, 2011.	June 6, 2006
Legislation Enacted in 2007		
Rate Reduction - ENI	Reduced the rate on the ENI base from 7.5 percent to 7.1 percent, and amended the recapture rate for the small business rate to conform to the general rate change.	January 1, 2007
Rate Reduction - ENI (Manufacturers and QETCs)	Reduced the rate on the ENI base from 7.5 percent to 6.5 percent for qualifying manufacturers and emerging technology companies.	January 31, 2007
Rate Reduction - AMT	Reduced the rate applicable to the alternative minimum taxable income base from 2.5 percent to 1.5 percent.	January 1, 2007
Combined Filing Requirement	Required taxpayers operating several corporations on a unitary basis to file a combined return if there are substantial inter-corporate transactions between them.	January 1, 2007
REITS/RICS Loophole Closer	Required combining a Real Estate Investment Trust (REIT) or Regulated Investment Company (RIC) held as a subsidiary with its parent company. In computing combined entire net income, the deduction available to REITs for dividends paid are not allowed. In addition, such a combined report must include the combined capital of the REIT or RIC subsidiary.	January 1, 2007
Acceleration of Single Sales Apportionment Phase-In	Accelerated, by one year, the final phase-in of the move to sales-only apportionment of income and capital.	January 1, 2007
Legislation Enacted in 2008		
Restructure Fixed Dollar Minimum Tax	Changed minimum tax from a tax based on gross payroll to one based on gross income	January 1, 2008
Change Capital Base	Increased the capital base cap for non-manufacturers from $1 million to $10 million for a three year period. Reduced the capital base rate from 0.178 percent to 0.15 percent.	January 1, 2008
Decouple from the Federal Qualifying Production Activities Income Deduction	Decoupled New York State Entire Net Income determination from Federal QPAI deduction. The Internal Revenue Code allows an above the line deduction of 6 percent (rising to 9 percent in 2010) for manufacturing activities.	January 1, 2008
Technical correction to REITS/RICS Loophole Closer	For a period of three tax years, required all captive REITS and RICS to file a combined return with the closest corporation that directly or indirectly owns or controls the captives.	January 1, 2008

Subject	Description	Effective Date
Estimated Payment Requirement	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year's liability for those corporate taxpayers whose prior year liability exceeds $100,000.	January 1, 2009
Brownfields Program Reform	Amended the tangible property credit component to impose a limit of the lesser of $35 million or three times the qualifying costs used in calculating the site preparation and on-site groundwater components for projects accepted into the Brownfields program after June 22, 2008. Qualifying manufacturers accepted after this date would be subject to a tangible property credit component limitation equal to the lesser of $45 million or six times the qualifying costs used in calculating the site preparation and on-site groundwater components. Several other changes were effected, including increasing the credit percentages awarded under the site preparation and on-site groundwater components to as much as fifty percent.	June 23, 2008
Empire State Film Production Tax Credit	Increased the credit rate from 10 percent of qualified production costs to 30 percent. Extended the sunset to December 31, 2013 and increased the annual allocation each year from 2008 through 2013.	April 23, 2008
Legislation Enacted in 2009		
Tax Treatment of Overcapitalized Insurance Companies	Required an overcapitalized captive insurance company to file a combined report with the corporation that directly owns or controls over 50 percent of the voting stock of the captive if that corporation is an Article 9-A taxpayer.	January 1, 2009
Estimated Payment Requirement	Increased the first quarterly installment of estimated tax from 30 percent to 40 percent of the prior year's liability for those corporate taxpayers whose liability exceeds $100,000.	January 1, 2010
Empire Zones Reform	Reformed the Empire Zones program. All companies that had been certified for at least three years were subjected to a performance review focusing on cost/benefit ratios.	January 1, 2008
	The QEZE real property tax credit was reduced by 25 percent and firms were disqualified for the QEZE sales tax refund/credit unless the sale qualified for a refund or credit of the local sales and use tax.	April 1, 2009
	Moved program sunset date from December 30, 2011 to June 30, 2010.	April 7, 2009
Empire State Film Production Tax Credit	Authorized an additional $350 million for calendar year 2009. For taxable years beginning January 1, 2009, the utilization of the credit was spread across several years based on the dollar amount of the credit.	January 1, 2009
Change to the Tax Classification of HMOs	Subjected for-profit HMOs to the franchise tax on insurance corporations under Article 33 of the Tax Law.	January 1, 2009
Legislation Enacted in 2010		
Make REITs/RICs Loophole Closer Permanent	Made permanent the provisions that address the closely-held REIT and RIC loophole, which would have otherwise expired on December 31, 2010.	August 11, 2010
Tax Credit Deferral	Capped aggregate business related tax credit claims at $2 million per taxpayer for each of tax years 2010, 2011 and 2012. The total amount of credits deferred can be claimed by affected taxpayers on returns for tax years 2013, 2014 and 2015.	January 1, 2010
Technical Changes to Empire Zones Program	Made technical corrections to the 2009-10 Enacted Budget Empire Zones Program changes. Clarified that the Legislature intended to decertify certain businesses retroactively to the 2008 tax year, clarified reporting provisions, and allowed qualified investment projects to claim the investment tax credit and employee incentive tax credit after June 30, 2010.	August 11, 2010
Empire State Film Production Tax Credit	Authorized an additional $420 million for calendar years 2010 through 2014, $7 million of which is dedicated to a new post production tax credit. This measure also imposed various reforms to enhance the State's return on investment.	August 11, 2010
Excelsior Jobs Program	Established a new economic development program to provide incentives based on job creation, investment and research and development expenditures in New York State.	July 1, 2010

Subject	Description	Effective Date
REIT Technical Amendments	Clarified that certain publicly traded REITs with fractional ownership shares in non-related U.S. REITs are not subject to provisions relating to "closely-held" REITs that were enacted in 2008-09.	August 11. 2010

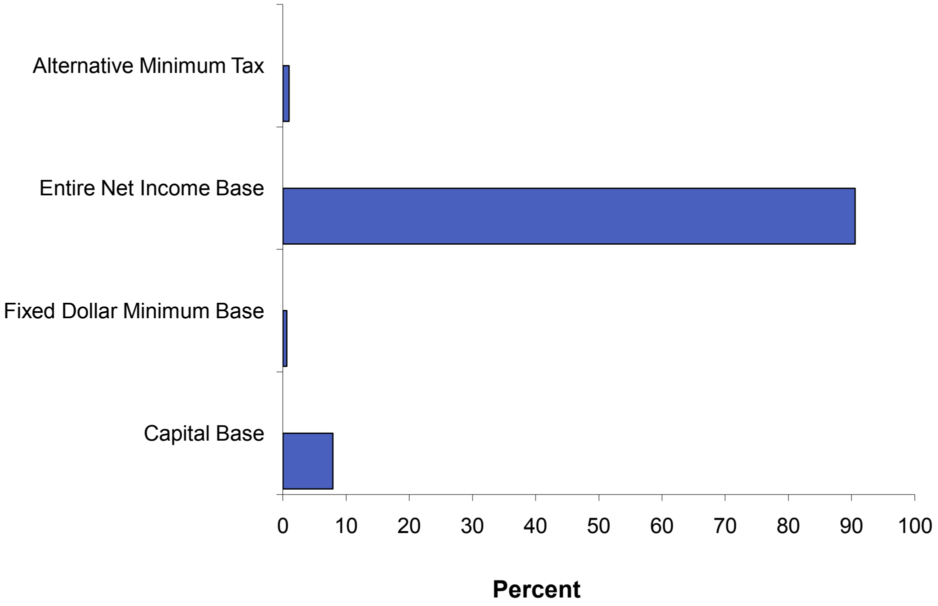
TAX LIABILITY

The Corporate Franchise Tax Study File, which is compiled by the Department of Taxation and Finance's Office of Tax Policy Analysis (OTPA), contains the most recent data available on Article 9-A liability for corporations filing under Article 9-A. The most current liability information is for the 2007 tax year.

Although the study file does not include information on non-allocating fixed dollar minimum tax filers and S corporations, OTPA compiles corporate tax return data relating to the total number of C and S corporations and tax liability for these entities. The 2006 New York State Corporate Tax Statistical Report, the most recent data available, indicates that 263,781 taxpayers filed as C corporations, while 367,423 taxpayers filed as S corporations. The number of C corporations increased by 3.3 percent from the prior year and the number of S corporations increased by 3.0 percent. Over the last several years, the number of C corporations has been relatively flat, while the number of S corporations has experienced growth averaging 3.5 percent.

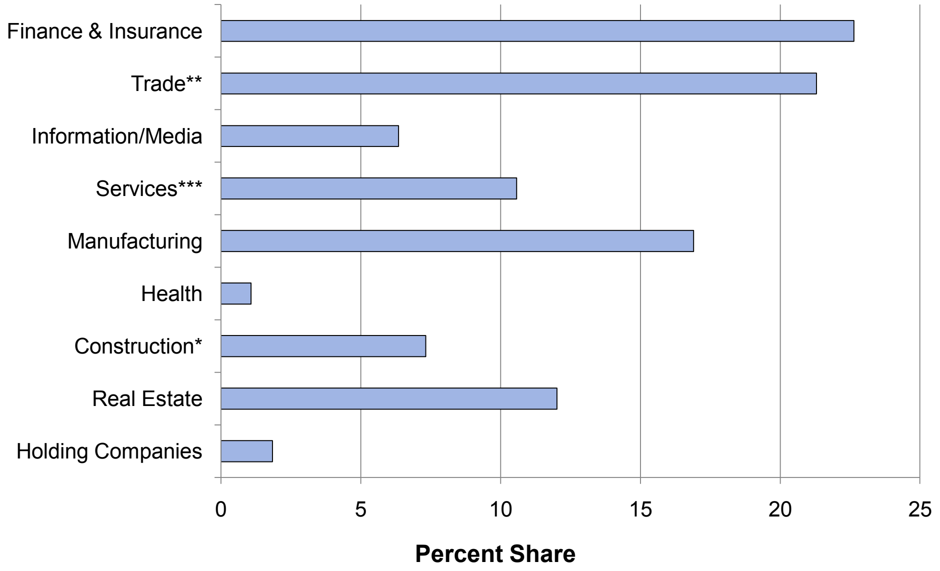
As noted above, C corporations pay under the highest of four alternative bases. In 2007, roughly 90 percent of liability was paid under the entire net income base. The capital base was the second largest base, at 7.8 percent of liability. These percentages have been fairly constant over time with the exception of the AMT base, which has been diminishing the last few years due to Tax Law changes that have reduced the AMT rate.

2007 Distribution of C Corporation Tax Liability by Tax Base



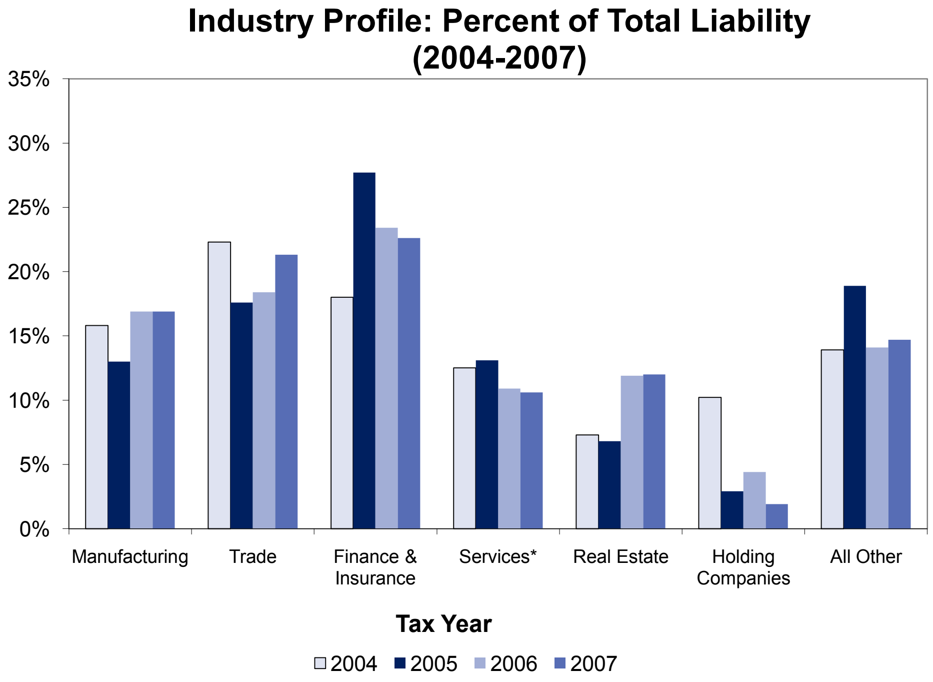
The next chart shows the distribution of tax liability by major industry sector. The 2007 study file indicates that 22.6 percent of total C corporation liability was paid by the finance and insurance sector, 21.3 percent by the trade sector and 16.9 percent by the manufacturing sector. These three sectors have represented the majority of total liability over the last several years.

2007 Tax Base Industry Profile
(Share of Total Tax Liability of
C Corporation Taxpayers)



* Construction, agriculture, mining, and utilities. (NAICS Sectors 11, 21, 22, and 23)
** Wholesale trade, retail trade and Transportation and warehousing. (NAICS Sectors 42, 44, 45, 48 and 49)
*** Services consist of: professional, scientific, and technical services; administrative and support and waste management and remediation services; art, entertainment, and recreation services; accommodation and food services; and other services. (NAICS Sectors 54, 56, 71, 72, and 81)

The following chart illustrates the percentage of liability paid by the industry groups of the State's tax base. Liability for the finance and insurance sector increased in importance over the last few years. Liability for the finance and insurance sector was 18.1 percent in 2004 and jumped to over 20 percent in each of 2005 (27.2 percent), 2006 (23.6 percent), and 2007 (22.6 percent). In comparison, the manufacturing industry's share of liability has remained relatively constant with the exception of 2005, when it declined to 13.0 percent of total liability. For the last two years (2006 and 2007) manufacturing has been 16.9 percent of total liability. Trade has steadily regained importance as a share of liability over the last several years. Real estate as a percent of liability was less than 10 percent of liability in 2004 and 2005 and increased to nearly 12 percent in both 2006 and 2007.



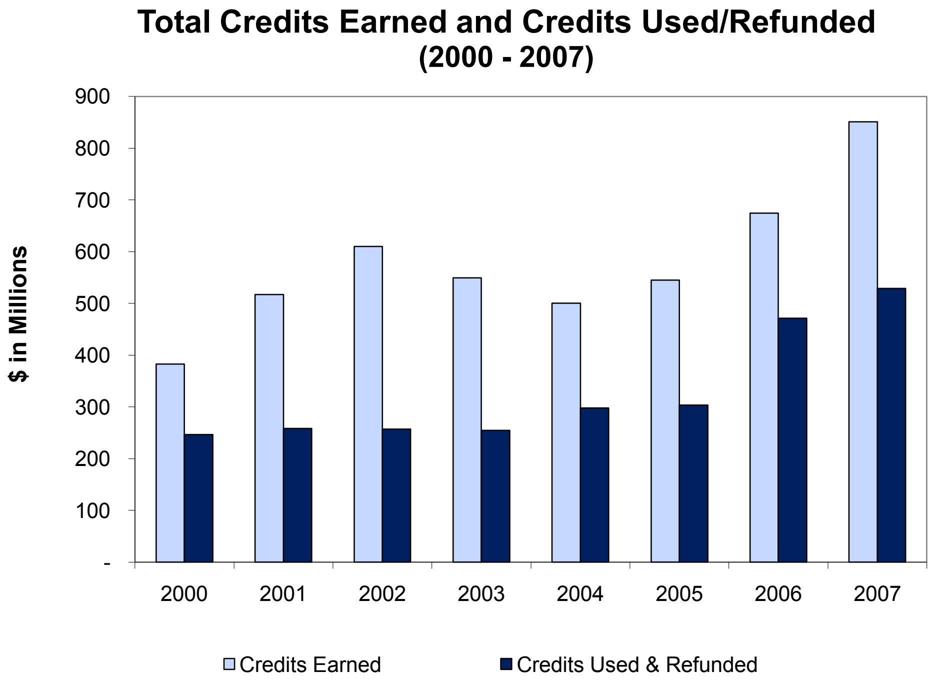
* These services consist of: professional, scientific, and technical services; administrative and support and waste management and remediation services; art, entertainment, and recreation services; accommodation and food services; and other services. (NAICS Sectors 53, 54, 55, 56, 71, 72, and 81)

The link between underlying corporate tax liability and cash receipts in any given State fiscal year is often obscured by the timing of payments, the carry forward of prior year losses or credits and the reconciliation of prior year liabilities. Tax collections are the net payments and adjustments made by taxpayers on returns and extensions over the course of a State fiscal year. For taxpayers with a fiscal year ending December thirty-one, current year liability collections include a mandatory first installment payment that is paid in March and is based on 40 percent of the prior year's liability. In addition, calendar year corporations are required to make estimated payments, based on projected liability for the current tax year, in June, September and December. A final payment is made in March of the subsequent year. Calendar year taxpayers make up the majority of the tax base. Taxpayers may make periodic adjustments to these payments after the close of the tax year as their actual liability for a given tax year becomes more definite.

Tax liability in the current year is based on estimated performance for the same year. It is generally calculated by using tax bases, tax rates, special deductions and additions, losses and tax credits. Since taxpayers must pay estimated taxes months in advance of knowing actual liability, it is difficult for taxpayers to determine the proper level of payments needed over the course of a year. This is especially true if business or economic conditions change. The accompanying graph compares historical corporate tax liability and fiscal year cash receipts. It illustrates the significant volatility in the underlying relationship between payments and liability, which is often compounded by the difference between a taxpayer's tax year and the State fiscal year for many taxpayers.

Credits

The following graph shows major credits earned and used by Article 9-A taxpayers, and illustrates that the amount of credits earned significantly exceeds the amount of credits used. These credits include the investment tax credit (ITC), Empire Zone credits, Brownfield credits, Film Production tax credit, the alternative minimum tax (AMT) credit, the agricultural property tax credit, and the special additional mortgage recording tax credit. Credit earned is the amount of credit earned by a taxpayer in the current tax year. This is prior to any credit recapture, and does not include credits earned in or carried over from any prior years.



Generally, Tax Law provisions prevent taxpayers from using tax credits to reduce final liability below the fixed dollar minimum tax or the AMT. This has resulted in taxpayers carrying forward a significant amount of tax credits into subsequent tax years. It is expected that the use of refundable credits, especially Empire Zones, Brownfields and the Film Production Tax credit, will significantly increase the total amount of credits used in future years. These credits can then be used to more than offset tax liability through requests for cash refunds or credit carry forwards.

As seen in the chart above, credits earned and credits used were relatively stable through 2005. In 2006 and 2007 both credits earned and credits used and refunded increased. In 2006 credits earned increased by $129.3 million and credits used and refunded increased by $168.1 million. In 2007, credits increased by a greater amount ($176.6 million), but credited used and refunded increased less ($57.7 million) than the prior year. The increase in credits earned in 2007 is driven by Brownfield credits ($84.1 million) and Empire Zones credits ($81.1 million). In 2007 credits used and refunded increased for the Film Tax Credit ($21.6 million) and Brownfields ($84.2 million), but credits used and refunded for the investment tax credit ($24.8 million) and Empire Zones ($27.0 million) decreased when compared to 2006.

The upward trend in the Film Production credit and Brownfields is expected to continue in future years as these programs grow. The Brownfields tax credit program began in 2005. After the 2008 reforms to the Brownfield tax credit program are fully implemented (SFY 2020-21), this tax credit is expected to cost approximately $300 million annually. Prior to then, the estimated annual cost for this program is approximately $600 million. The Film Production tax credit program began in 2004 and was enhanced in 2006, 2008 and 2009. The total amount of film credits expected to be allocated through 2010 is approximately $1.5 billion. Since the inception of the film tax credit program, the total amount of tax credits available for the program is $3.1 billion.

RECEIPTS: ESTIMATES AND PROJECTIONS

CORPORATION FRANCHISE TAX
(millions of dollars)

	Actual 2009-10	Estimated 2010-11	Change	Percent Change	Projected 2011-12	Change	Percent Change
General Fund							
Non-Audit Receipts	1,542	2,075	533	34.6	2,579	504	24.3
Audit Receipts	603	773	170	28.2	578	(195)	(25.2)
Executive Budget Initiatives	0	0	0	--		0	--
Total	**2,145**	**2,848**	**703**	**32.8**	**3,157**	**309**	**10.8**
Other Funds							
Non-Audit Receipts	271	299	27	10.0	329	30	10.2
Audit Receipts	95	123	29	30.0	150	27	21.6
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**366**	**422**	**56**	**15.2**	**479**	**57**	**13.5**
All Funds							
Non-Audit Receipts	1,813	2,374	561	30.9	2,908	534	22.5
Audit Receipts	698	896	199	28.5	728	(168)	(18.8)
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**2,511**	**3,270**	**759**	**30.2**	**3,636**	**366**	**11.2**

All Funds

2010-11 Estimates

All Funds collections through December are $1,886.6 million, an increase of $184.9 million, or approximately 10.9 percent above the comparable period in the prior fiscal year. This year-to-year increase is attributable to higher calendar year 2010 liability payments, higher audit receipts and lower refunds. Through December, audit collections are $605.5 million, an increase of $19.7 million or 3.4 percent. Gross collections, the majority of which are calendar year filer estimated payments, total an estimated $1,886.7 million to-date in 2010-11 compared to $1,799.5 million in 2009-10, an increase of $87.2 million or 4.8 percent. Estimated payments made by calendar year filers exhibited continued strength with growth of 15 percent from December 2009, but taxpayers are continuing to use high levels of prior period adjustments to make payments towards current year liability.

All Funds receipts for 2010-11 are estimated to be $3,270 million, an increase of $759.1 million or 30.2 percent above last year. This increase is mainly the result of strong corporate profit growth of 28.8 percent for calendar year 2010. Calendar year filer liability for tax year 2010 is expected to grow 14 percent from 2009. The March settlement is forecast to grow 13.8 percent and the March prepayment on 2011 liability is estimated to grow 10.4 percent. This would be the first year-over-year growth in liability since 2007. In addition, audit receipts are estimated to increase $199 million in 2010-11 from 2009-10.

2011-12 Projections

All Funds receipts are projected to be $3,636 million, an increase of $366 million, or 11.2 percent above 2010-11. Adjusting for the credit deferral, growth is estimated to be

8.1 percent. Corporate profit growth is expected to slow to 6.2 percent in calendar year 2011 compared to 28.8 percent for calendar year 2010.

General Fund

General Fund collections for 2010-11 are expected to be $2,848 million, an increase of $703.4 million, or 32.8 percent above 2010-11. Strong growth in current year liability and higher audit receipts drive the increase in year-over-year tax receipts. Refunds are estimated to be $625 million for 2010-11.

For 2011-12, General Fund receipts are projected to be $3,157 million, an increase of $309 million, or 10.8 percent above 2010-11. The estimate reflects a slowdown in corporate profit growth as the economy returns to trend growth. The estimate for 2011-12 audit collections is $578 million, a decrease of $195 million from the prior year. Refunds are expected to be $571 million in 2011-12. Refunds paid to taxpayers are expected to be significantly lower as taxpayers reduce their usage of prior period adjustments.

Other Funds

Under current law, corporations doing business in the MCTD are subject to a 17 percent surcharge on the portion of the total liability allocable to the region.

The Article 9-A contribution to the MTOAF for 2010-11 is estimated to increase 15.2 percent relative to the prior year, to $422 million. The voluntarily remitted portion of receipts is estimated to grow 10 percent from 2009-10. Audit collections are expected to increase from $95 million to $123 million based on current year trends.

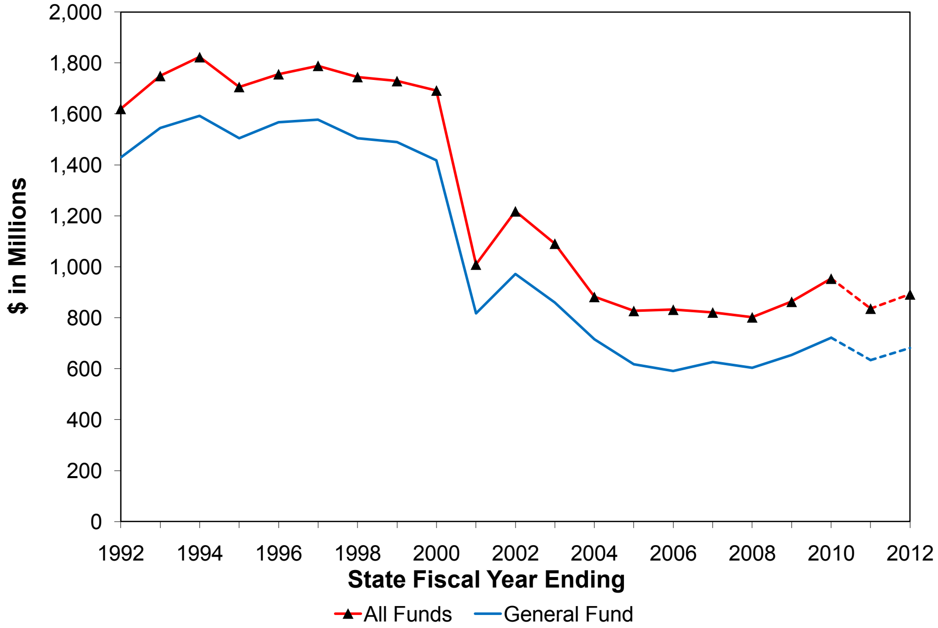
Collections for 2011-12 are expected to increase 13.5 percent to $479 million. The voluntarily remitted portion of receipts is projected to grow 10.2 percent, while audit receipts are forecast to grow 22 percent.

CORPORATION AND UTILITIES TAXES

CORPORATION AND UTILITIES TAXES (millions of dollars)							
	2009-10 Actual	**2010-11 Estimated**	**Change**	**Percent Change**	**2011-12 Projected**	**Change**	**Percent Change**
General Fund	721.7	634.0	(87.7)	(12.2)	680.6	46.6	7.4
Other Funds	232.0	202.0	(30.0)	(12.9)	211.0	9.0	4.5
All Funds	953.7	836.0	(117.7)	(12.3)	891.6	55.6	6.7

Note: Totals may differ due to rounding.

Corporation and Utilities Tax Receipts
History and Estimates



CORPORATION AND UTILITIES TAXES BY FUND (millions of dollars)										
	Gross General Fund	**Refunds**	**General Fund**	**Gross Special Revenue Funds**	**Refunds**	**Special Revenue Funds[1]**	**Gross Capital Project Funds**	**Refunds**	**Capital Projects Funds[2]**	**All Funds Receipts**
2001-02	999	27	972	247	1	246	0	0	0	1,218
2002-03	911	51	860	247	16	231	0	0	0	1,091
2003-04	729	14	715	173	6	167	0	0	0	882
2004-05	650	34	617	203	9	194	17	1	16	827
2005-06	608	17	591	229	6	223	19	1	18	832
2006-07	639	13	626	182	4	178	18	1	17	821
2007-08	618	15	603	189	6	183	16	1	15	802
2008-09	666	12	654	198	7	191	19	2	18	863
2009-10	741	19	722	224	12	212	20	1	20	954
Estimated										
2010-11	651	17	634	203	16	187	18	3	15	836
2011-12										
Current Law	742	55	687	204	8	196	17	2	15	898
Proposed Law	736	55	681	204	8	196	17	2	15	892

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- reform and extend the current Power for Jobs program for two additional years.

DESCRIPTION

Tax Base and Rate

Article 9 of the Tax Law imposes taxes and fees on a number of specialized industries, including public utilities, newly organized or reorganized corporations, out-of-State corporations doing business in New York State, transportation and transmission companies, and agricultural cooperatives. Historically, Article 9 receipts have come primarily from the public utility, telecommunications, and transportation industries. However, statutory and regulatory changes enacted in 2000 have reduced the percentage share of General Fund corporation and utilities tax receipts attributable to utilities from 56.5 percent in 1999-2000 to 17.1 percent in 2008-09. In recent years, the telecommunications industry has become the primary source of collections, accounting for more than 74 percent of 2008-09 General Fund corporation and utilities tax receipts.

Section 180 assesses an organization tax upon newly incorporated or reincorporated domestic (in-State) corporations. The tax is imposed at a rate of 1/20th of one percent of the total amount of the par value (the nominal or face value of a security) of the stock that the corporation is authorized to issue. The tax rate for stocks with “no-par” value is five cents per share. The tax also applies to any subsequent changes in the share of stocks, including changes to the number of par value and “no-par” value stocks or newly authorized stock. The minimum tax imposed by section 180 is $10.

Section 181 imposes a license fee on foreign (out-of-State) corporations for the privilege of exercising a corporate franchise or conducting business in a corporate or organized capacity in New York State. The fee is assessed at a rate equivalent to the organization tax imposed by section 180 and attributable to the amount of capital stock employed in the State. Foreign corporations are also subject to an annual maintenance fee of $300. Foreign corporations may claim a credit for the fee paid against the tax due under Article 9, the corporate franchise tax or the bank tax.

Section 183 provides for a franchise tax on the capital stock of transportation and transmission companies, including telecommunications, trucking, railroad, and other transportation companies. The tax is imposed at the highest of the following three alternatives:

- 1.5 mills per dollar of the net value of capital stock allocated to New York State;
- 0.375 mills per dollar of par value for each one percent of dividends paid on capital stock if dividends amount to 6 percent or more; or
- a minimum tax of $75.

Section 184 levies an additional franchise tax of 0.375 percent on the gross receipts of transportation and transmission companies. As of July 1, 2000, gross receipts from international, interstate, and inter-Local Access Transport Areas (LATAs) services and 30 percent of intra-LATA gross receipts are excluded from the tax. Railroad and trucking companies that elected to remain subject to Article 9 taxes (rather than to become subject to the corporate franchise tax imposed under Article 9-A) pay the tax at a rate of 0.375 percent of gross earnings, including an allocated portion of receipts from interstate transportation-related transactions.

Section 185 imposes a franchise tax on farmers, fruit-growers and other agricultural cooperatives. The tax is imposed at the highest of the following three alternatives:

- 1.0 mills per dollar of the net value of capital stock allocated to New York State;
- 0.25 mills per dollar of par value for each one percent of dividends paid on capital stock if dividends amount to 6 percent or more; or
- a minimum tax of $10.

Effective January 1, 2000, the section 186 franchise tax imposed on public utilities and waterworks, gas, electric, steam heating, lighting and power companies was repealed, and these taxpayers became subject to the corporate franchise tax imposed under Article 9-A of the Tax Law.

Section 186-a imposes a two percent gross receipts tax on charges for the transportation, transmission, distribution, or delivery of electric and gas utility services. As shown in the following tables, between January 1, 2000 and January 1, 2005 the gross receipts tax imposed on:

- charges for transmission/distribution services to residential customers was gradually reduced from 3.25 percent to its current rate of 2 percent;
- charges for transmission/distribution services to nonresidential customers was gradually eliminated; and
- the sale of the energy commodity was gradually eliminated, declining from 3.25 percent to zero.

TAX RATES CONTAINED IN SECTION 186-a OF THE TAX LAW

Effective Date	Type	Rate (percentage)
Prior to January 1, 2000	Commodity	3.25
	Transmission/Distribution	3.25
January 1, 2000	Commodity	2.10
	Transmission/Distribution	2.50
January 1, 2001	Commodity	2.00
	Transmission/Distribution	2.45
January 1, 2002	Commodity	1.90
	Transmission/Distribution	2.40
January 1, 2003	Commodity	0.85
	Transmission/Distribution	2.25
January 1, 2004	Commodity	0.40
	Transmission/Distribution	2.125
January 1, 2005	Commodity	0.00
	Transmission/Distribution	2.00

PHASE-IN SCHEDULE FOR EXCLUSION OF TRANSMISSION AND DISTRIBUTION FOR NONRESIDENTIAL CUSTOMERS

Effective Date	Percent Excluded
Calendar Year 2000	0
Calendar Year 2001	0
Calendar Year 2002	25
Calendar Year 2003	50
Calendar Year 2004	75
Calendar Year 2005	100

Section 186-e imposes a 2.5 percent gross receipts tax on charges for telecommunications services. The tax was reduced to 3.25 percent from 3.5 percent on October 1, 1998, and reduced again to 2.5 percent on January 1, 2000.

Article 9 taxpayers that conduct business in the Metropolitan Commuter Transportation District (MCTD) are subject to a 17 percent surcharge on their liability attributable to the MCTD.

Administration

Taxpayers subject to sections 182, 182-a, 184, 186-a and 186-e make quarterly tax payments of equal installments on an estimated basis in June, September and December. A final payment is made in March. Additionally, taxpayers are required to make a first installment of tax equal to 40 percent of their prior year's liability. This is paid in March along with the final payment.

As shown in the following table, the Tax Law has been amended from time-to-time to provide various formulas for the deposit and disposition of receipts from the taxes imposed by sections 183 and 184 of the Tax Law to the Mass Transportation Operating Assistance Fund (MTOAF) and more recently the Dedicated Highway and Bridge Trust Fund (DHBTF).

SECTIONS 183 AND 184 DISTRIBUTION TO FUNDS SINCE 1982 (percentage)

Effective Date	General Fund	MTOAF	DHBTF
July 1, 1982	60.0	40.0	0.0
April 1, 1996	52.0	48.0	0.0
January 1, 1997	50.5	49.5	0.0
January 1, 1998	46.0	54.0	0.0
January 1, 2000	36.0	64.0	0.0
January 1, 2001	20.0	80.0	0.0
April 1, 2004	0.0	80.0	20.0

All receipts from the 17 percent surcharge imposed on Article 9 taxpayers that conduct business in the MCTD are deposited in the MTOAF.

Significant Legislation

Significant statutory changes to the corporation and utilities taxes since 1990 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1990		
Temporary Tax Surcharge	Imposed a temporary 15 percent surcharge on taxpayers liable for tax under Sections 183, 184, 186 and 186-a of the Article 9 Corporations and Utilities Tax. The surcharge was phased-out over a three-year period starting in 1994.	January 1, 1990
Legislation Enacted in 1995		
Telecommunications Act of 1995	Restructured the transmission portion of section 184 to apply to only local telecommunication services. Also, all toll revenues from interstate, and inter-LATAs services were exempted. Enacted section 186-e, which imposed a 3.5 percent excise tax on receipts from telecommunications services. Replaced the property factor with a new allocation mechanism. Under the “Goldberg” allocation method, receipts are allocated to New York if the call originates or terminates in this State and is charged to a service address in this State, regardless of where the charges for such services are billed or ultimately paid. Shifted the access deduction from inter-exchange carriers and local carriers who are ultimate sellers to initial sellers.	January 1, 1995
Section 184	Exempted 30 percent of intra-LATA toll receipts.	January 1, 1996
Legislation Enacted in 1996		
Trucking and Railroad Companies	Allowed these companies the option of being taxed under the general corporate franchise tax (Article 9-A). Reduced the tax rate on section 184 for these companies from 0.75 percent to 0.6 percent.	January 1, 1997
Legislation Enacted in 1997		
Power for Jobs Program	Created a tax credit against section 186-a to compensate utilities for revenue losses associated with participation in the program. The program makes low-cost power available to businesses, small businesses and not-for-profit corporations for job retention and creation. The credit is allowed to the utility providing low cost power to retail customers selected by the Power Allocation Board. Program sunsets December 31, 2003.	July 29, 1997
Rate Reductions	Reduced the section 184 tax rate from 0.75 percent to 0.375 percent. Reduced section 186-a and section 186-e tax rates from 3.5 percent to 3.25 percent as of October 1, 1998, and to 2.5 percent on January 1, 2000.	January 1, 1998

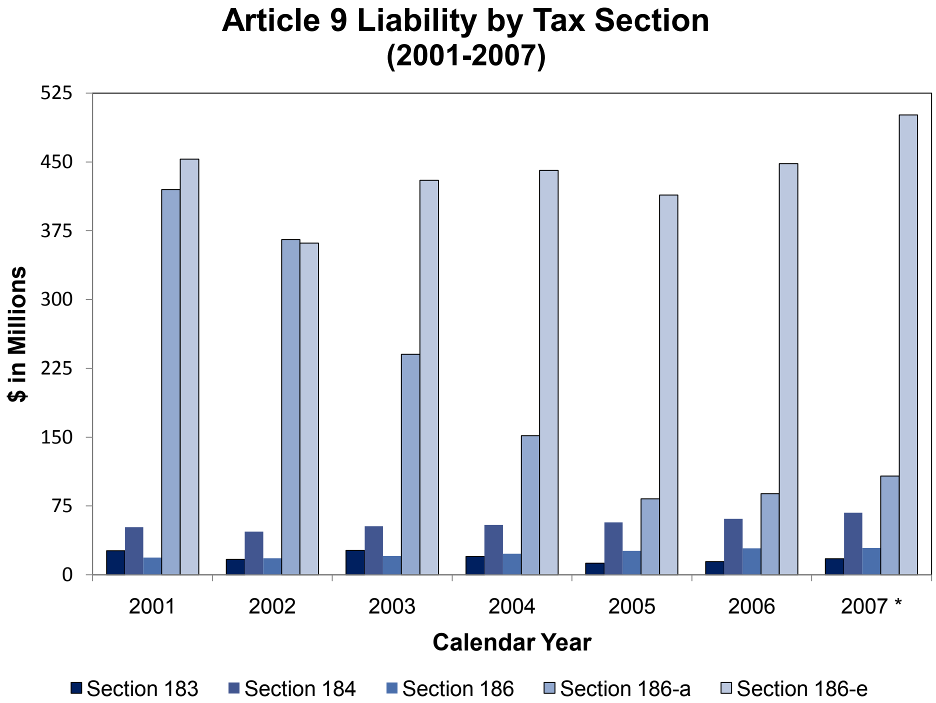
Subject	Description	Effective Date
Legislation Enacted in 1999		
MTOA Fund	Increased the percent of collections from section 183 and section 184 to be distributed to the MTOA Fund from 54 percent to 64 percent on January 1, 2000, and to 80 percent on January 1, 2001.	January 1, 2000 January 1, 2001
Legislation Enacted in 2000		
Utility Tax Reform	Repealed the section 186 tax. The section 186-a and section 189 taxes are phased-out over a five-year period. Elimination of the gross receipts tax for manufacturers and industrial energy customers retroactive to January 1, 2000; elimination of the tax for all other business customers over a five-year period. For residential consumers, the commodity tax is eliminated and the transmission/distribution rate of the 186-a tax is reduced from 2.5 percent to 2.0 percent.	January 1, 2000
Power for Jobs	Provided an additional 300 megawatts of low-cost power to businesses across New York through the Power for Jobs program. Changed program sunset to December 31, 2005.	January 1, 2001
Legislation Enacted in 2001		
Section 189	Created a prospective and retroactive credit for taxes paid to other states where natural gas was purchased.	Retroactive to August 1, 1991
Legislation Enacted in 2002		
Power for Jobs	Provided low cost power for economic development through phase five of the Power for Jobs Program and provided an energy service company option for recipients under the program.	July 30, 2002
Estimated Payments	Increased the first quarterly payment of estimated tax, for taxpayers paying under sections 182, 182-a, 184, 186-a, and 186-e, from 25 percent to 30 percent of the prior year's liability. Taxpayers whose prior year's liability exceeds $100,000 are affected. Taxpayers whose prior year's liability is between $1,000 and $100,000 will continue to make a first quarterly payment of 25 percent of the prior year's liability. Sunsets for tax years beginning on or after January 1, 2006.	January 1, 2003
Legislation Enacted in 2003		
Superfund-Brownfield Credits	Created tax incentives for the redevelopment of brownfields through three tax credits: a redevelopment tax credit, a real property tax credit, and an environmental remediation insurance credit. There are three components in the redevelopment tax credit: a site preparation component, a tangible property component, and an onsite groundwater remediation component.	April 1, 2005
Sections 183 & 184	Allocated the remaining 20 percent of section 183 and 184 collections to the Dedicated Highway and Bridge Trust Fund (DHBTF).	April 1, 2004
Legislation Enacted in 2004		
Power for Jobs Program	Modified the Power for Jobs Program to allow prior recipients of low cost power an option of a credit or rebate.	March 1, 2004
Legislation Enacted in 2005		
Power for Jobs Program Extension	Extended the Power for Jobs program through December 31, 2006.	April 1, 2005
Legislation Enacted in 2006		
Power for Jobs Program Extension	Extended the Power for Jobs program through June 30, 2007.	April 1, 2006
Legislation Enacted in 2007		
Power for Jobs Program Extension	Extended the Power for Jobs program through June 30, 2008.	April 1, 2007
Legislation Enacted in 2008		
Estimated Payment Requirement	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year's liability for tax sections 182, 182-a, 184, 186-a and 186-e.	January 1, 2009
Power for Jobs Program Extension	Extended the Power for Jobs program through June 30, 2009.	April 1, 2008

Subject	Description	Effective Date
Brownfields Program Reform	Amended the tangible property credit component to impose a limit of the lesser of $35 million or three times the qualifying costs used in calculating the site preparation and on-site groundwater components for projects accepted into the Brownfields program after June 22, 2008. Qualifying manufacturers accepted after this date would be subject to a tangible property credit component limitation equal to the lesser of $45 million or six times the qualifying costs used in calculating the site preparation and on-site groundwater components. Several other changes were effected, including increasing the credit percentages awarded under the site preparation and on-site groundwater components to as much as fifty percent.	June 23, 2008
Legislation Enacted in 2009		
Estimated Payment Requirement	Increased the first quarterly installment of estimated tax from 30 percent to 40 percent of the prior year's liability for those corporate taxpayers whose liability exceeds $100,000.	January 1, 2010
Replace County Law Wireless Surcharge with New Tax Law Section 186-f	Moved the imposition of the surcharge on wireless communication from the County Law Section 309 to the new Tax Law Section 186-f.	September 1, 2009
Telecommunications Study	Directed the Department of Taxation and Finance, in consultation with the Public Services Commission, to conduct a study of assessments, fees, tax rates and associated policies of the State of New York relating to the telecommunications industry.	October 1, 2009
Power for Jobs Program Extension	Extended the power for Jobs Program through May 15, 2010	July 11, 2009
Legislation Enacted in 2010		
Power for Jobs Program Extension	Extended the Power for Jobs Program through May 15, 2011.	August 4, 2010
Tax Credit Deferral	Capped aggregate business related tax credit claims at $2 million per taxpayer for each of tax years 2010, 2011 and 2012. The total amount of credits deferred can be claimed by affected taxpayers on returns for tax years 2013, 2014 and 2015.	January 1, 2010

TAX LIABILITY

The *2006 New York State Corporate Tax Statistical Report* contains the most recent data available on Article 9 tax liability. The corporation and utilities tax represented 13.9 percent of total New York State corporate tax liability in 2006.

The chart below shows Article 9 liability by tax section as shown in the *2006 New York State Corporate Tax Statistical Report* and the 2007 Article 9 study file. Total tax liability for Article 9 was $970 million in 2001, $880 million in 2002, $770 million in 2003, $690 million in 2004, $592 million in 2005, $641 million in 2006, and $723 million in 2007. The declines in liability over the 2001 through 2005 period are attributable to the repeal of the section 186 franchise tax imposed on water, gas, electric and power companies on January 1, 2000, and phased-in reductions in the tax rates imposed under section 186-a on commodities and transmission and distribution that began in tax year 2000. The final year of the phase-in was calendar year 2005.

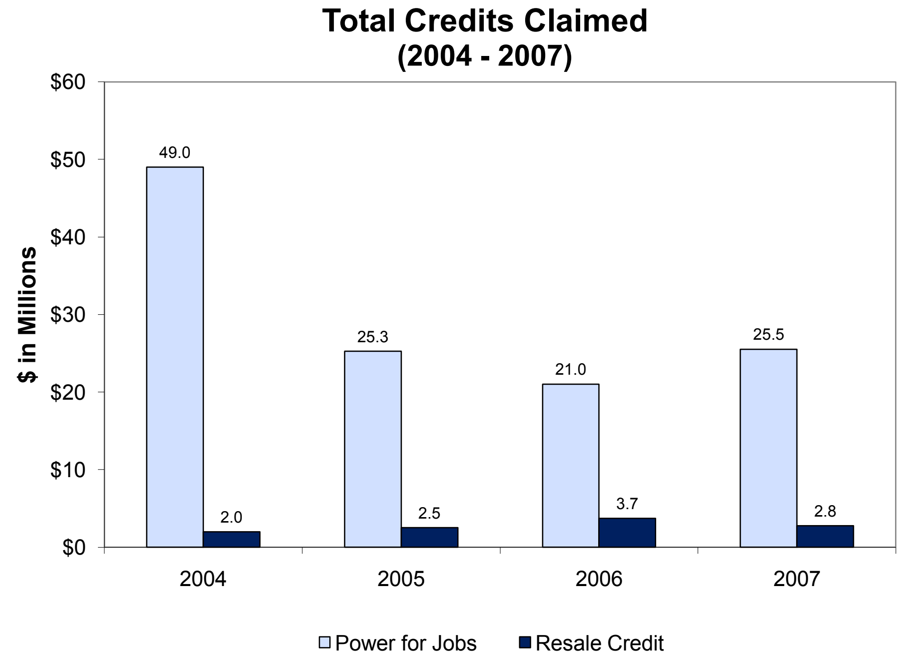


* 2007 data is from Article 9 study file.

Sections 183 and 184 and sections 186-a and 186-e represent the largest share of tax liability under Article 9. Although a broad range of industries are represented on the study file for sections 183 and 184, the overwhelming portion of the tax is paid by the telecommunications industry, which represents approximately 70 percent of total tax paid for section 183 and nearly 95 percent for section 184. For section 183, air, rail and water transportation made up the second largest industry (approximately 30 percent). In section 184, truck transportation represents approximately 3 percent of total liability. The same pattern is seen in section 186-e, the excise tax on telecommunications services. In tax years 2004 through 2007, over 90 percent of the total tax liability was paid by the telecommunications industry. Section 186-a is the gross receipts tax paid on the furnishing of utility services and the majority of that tax is paid by the utilities industry.

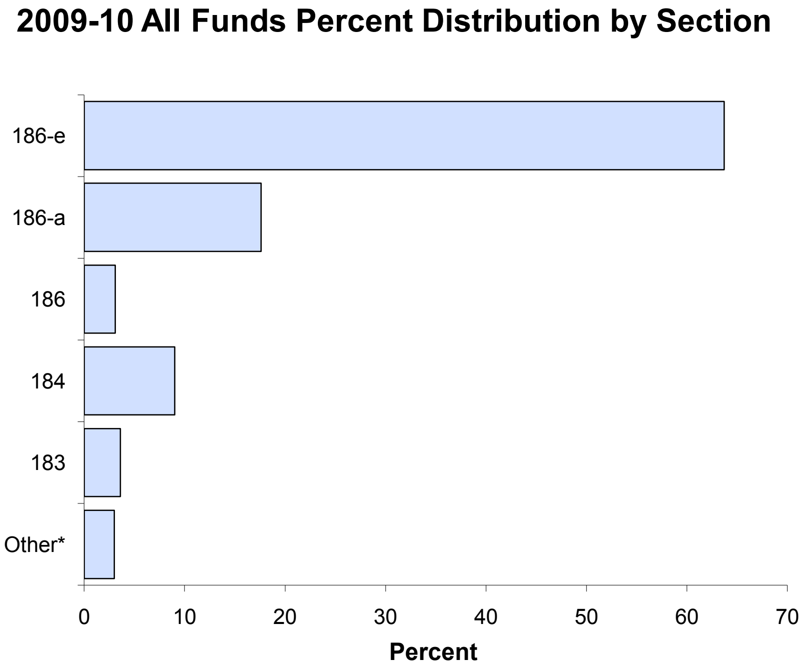
Credits

The following graph shows major credits used by Article 9 taxpayers in tax years through 2007. Taxpayers claimed the resale credit for telecommunications services under section 186-e and the power for jobs credit under section 186-a.



The bar graph below depicts the share of total 2009-10 Article 9 All Funds attributable to each section of Article 9. Section 186-e, the gross receipts tax on telecommunications services, represents nearly 64 percent of All Funds receipts. The next largest section, 186-a, represents approximately 18 percent.

RECEIPTS: BY SECTION



* Other includes sections 180, 181 and 185

The table below reflects the tax collections attributable to each section of Article 9 for 2009-10, 2010-11 and 2011-12. The All Funds total reflects taxes from the various sections prior to the distribution of receipts from sections 183 and 184 to MTOAF and DHBTF.

CORPORATION AND UTILITIES TAXES BY TAX LAW SECTION
(millions of dollars)

Section of Law	Type of Companies	2009-10 Actual	2010-11 Estimated	2011-12 Projected
180	Organization tax on New York (domestic) corporations	0.8	1.9	1.9
181	License and maintenance fees on out-of-State (foreign) corporations	25.2	27.0	27.0
183	Franchise tax on transportation and transmission companies	29.1	24.0	24.0
184	Additional franchise tax on transportation and transmission companies	69.1	56.0	56.0
185	Franchise tax on agricultural cooperatives	(0.3)	0.1	0.1
186 [1]	Franchise tax on water, steam, gas, electric, light and power companies	26.7	12.0	28.0
186a	Gross receipts tax on public utilities	149.8	122.0	139.6
186e	Excise tax on telecommunications	517.2	471.0	484.0
Other	186-a (non-PSC) and 189	2.4	0.0	0.0
Various	MTA Surcharge	133.7	122.0	131.0
	All Funds Total	953.7	836.0	891.6
	Less Other Funds			
	MTA Surcharge	133.7	122.0	131.0
	MTOAF	78.7	65.0	65.0
	DHBTF	19.6	15.0	15.0
	General Fund	721.7	634.0	680.6

[1] Tax was repealed January 1, 2000, at which time such companies generally became taxable under the corporation franchise tax.

For a more detailed discussion of the methods and models used to develop estimates and projections for the corporation and utilities taxes, please see the *Economic, Revenue and Spending Methodologies* at www.budget.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

CORPORATION AND UTILITIES TAXES
(millions of dollars)

	Actual 2009-10	Estimated 2010-11	Change	Percent Change	Projected 2011-12	Change	Percent Change
General Fund							
Non-Audit Receipts	691	618	(73)	(10.6)	647	29	4.7
Audit Receipts	31	16	(15)	(47.7)	40	24	150.0
Executive Budget Initiatives	0	0	0	--	(6)	(6)	--
Total	**722**	**634**	**(88)**	**(12.2)**	**681**	**47**	**7.4**
Other Funds							
Non-Audit Receipts	211	188	(23)	(10.9)	197	9	4.8
Audit Receipts	21	14	(7)	(33.6)	14	0	0.0
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**232**	**202**	**(30)**	**(12.9)**	**211**	**9**	**4.5**
All Funds							
Non-Audit Receipts	902	806	(96)	(10.6)	844	38	4.7
Audit Receipts	52	30	(22)	(42.0)	54	24	80.0
Executive Budget Initiatives	0	0	0	--	(6)	(6)	--
Total	**954**	**836**	**(118)**	**(12.3)**	**892**	**56**	**6.7**

All Funds

2010-11 Estimates

All Funds preliminary collections through December are $516.6 million, a decrease of $131.5 million, or approximately 20.3 percent below the comparable period in the prior fiscal year. Year-to-date receipts are impacted by a tax tribunal settlement refund ($37 million) that occurred in the first half of the fiscal year as well as the prepayment increase ($52 million) which accelerated payments into SFY 2009-10 from SFY 2010-11. Adjusting for these items, year-to-date receipts declined 6.6 percent.

All Funds receipts for 2010-11 are estimated to be $836 million, a decrease of $117.7 million, or 12.3 percent below last year. After accounting for the one-time items described above, underlying base growth is estimated to decline 3 percent.

2011-12 Projections

All Funds receipts are projected to be $892 million, an increase of $56 million, or 6.7 percent above 2010-11. Receipts include an extension of the Power for Jobs program. This extension is estimated to reduce 2011-12 receipts by $6.4 million. Absent the tax tribunal settlement in 2010-11, All Funds growth would be 2.2 percent. Both sections 186-e and 186-a are forecast to grow modestly based on revenue expectations for the telecommunications and residential energy sectors.

General Fund

General Fund collections for 2010-11 are expected to be $634 million, a decrease of $87.7 million, or 12.2 percent below 2009-10. Adjusted for the one-time items described in the All Funds section, growth in 2010-11 is flat compared to 2009-10.

For 2011-12, General Fund receipts are projected to be $681 million, an increase of $47 million, or 7.4 percent from 2010-11.

Other Funds

As previously discussed, a portion of Article 9 receipts is deposited into special revenue funds. Sections 183 and 184 collections deposited into the MTOAF will total an estimated $65 million for 2010-11. The remaining portion of sections 183 and 184 collections, or $15 million, is earmarked for the DHBTF. In 2011-12, receipts deposited into the MTOAF and the DHBTF are projected at $65 million and $15 million, respectively.

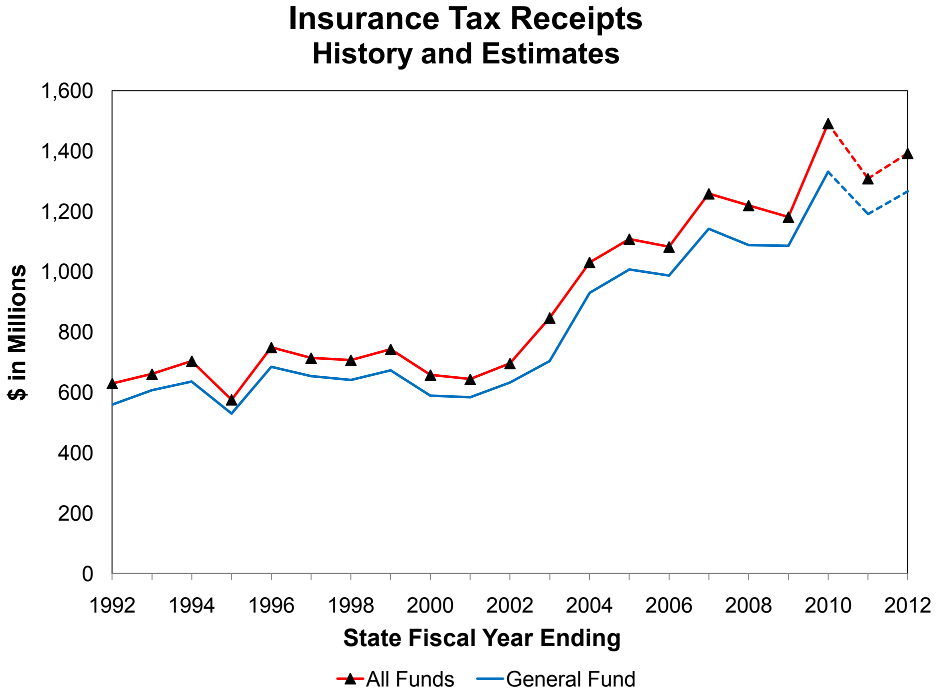
The MCTD business tax surcharge will result in deposits of an estimated $122 million for 2010-11 and $131 million in 2011-12 into the MTOAF.

INSURANCE TAXES

INSURANCE TAXES
(millions of dollars)

	2009-10 Actual	2010-11 Estimated	Change	Percent Change	2011-12 Projected	Change	Percent Change
General Fund	1,331.0	1,191.0	(140.0)	(10.5)	1,266.0	75.0	6.3
Other Funds	159.7	117.0	(42.7)	(26.7)	126.0	9.0	7.7
All Funds	1,490.7	1,308.0	(182.7)	(12.3)	1,392.0	84.0	6.4

Note: Totals may differ due to rounding.



INSURANCE TAXES BY FUND
(millions of dollars)

	Gross General Fund	Refunds	General Fund	Gross Special Revenue Funds	Refunds	Special Revenue Funds[1]	All Funds Receipts
2001-02	667	34	633	69	6	63	696
2002-03	763	59	704	82	10	72	776
2003-04	983	53	930	109	8	101	1,031
2004-05	1,058	51	1,007	119	18	101	1,108
2005-06	1,022	35	987	103	7	96	1,083
2006-07	1,176	34	1,142	122	6	116	1,258
2007-08	1,122	34	1,088	139	8	131	1,219
2008-09	1,135	49	1,086	106	11	95	1,181
2009-10	1,360	29	1,331	167	7	160	1,491
Estimated							
2010-11	1,212	21	1,191	121	4	117	1,308
2011-12							
Current Law	1,279	35	1,244	136	10	126	1,370
Proposed Law	1,301	35	1,266	136	10	126	1,392

[1] Receipts from the MTA surcharge are deposited in the Mass Transportation Operating Assistance Fund.

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- extend the financial services investment tax credit through October 1, 2015;
- make technical corrections to the Empire Zones program to grant the Department of Economic Development (DED) the authority to continue to monitor Empire Zone Program compliance and to decertify non-complying businesses;
- conform the New York State Insurance and Tax Laws to the federal Dodd-Frank Act excess lines tax provisions and authorize New York State to participate in a national compact that collects and remits excess lines taxes to the states;
- reform and improve the job creating effectiveness of the Excelsior economic development program; and
- eliminate a tax exemption for any large cooperative insurers receiving $25 million or more in annual premiums.

DESCRIPTION

Tax Base and Rate

Under Article 33 of the Tax Law and the Insurance Law, the State imposes taxes on insurance corporations, insurance brokers and certain insured for the privilege of conducting business or otherwise exercising a corporate franchise in New York.

Tax Rate on Non-Life Insurers

Non-life insurers are subject to a premiums-based tax. Accident and health premiums received by non-life insurers are taxed at the rate of 1.75 percent and all other premiums received by non-life insurers are taxed at the rate of 2 percent. A $250 minimum tax applies to all non-life insurers.

Tax Rate on Life Insurers

The franchise tax on life insurers has two components. The first component is a franchise tax computed under four alternative bases, with tax due based on the highest tax calculated under the four alternative bases. In addition, a 0.8 of one mill tax rate applies to each dollar of subsidiary capital allocated to New York.

RATES FOR THE INCOME BASE OF THE FRANCHISE TAX ON LIFE INSURERS

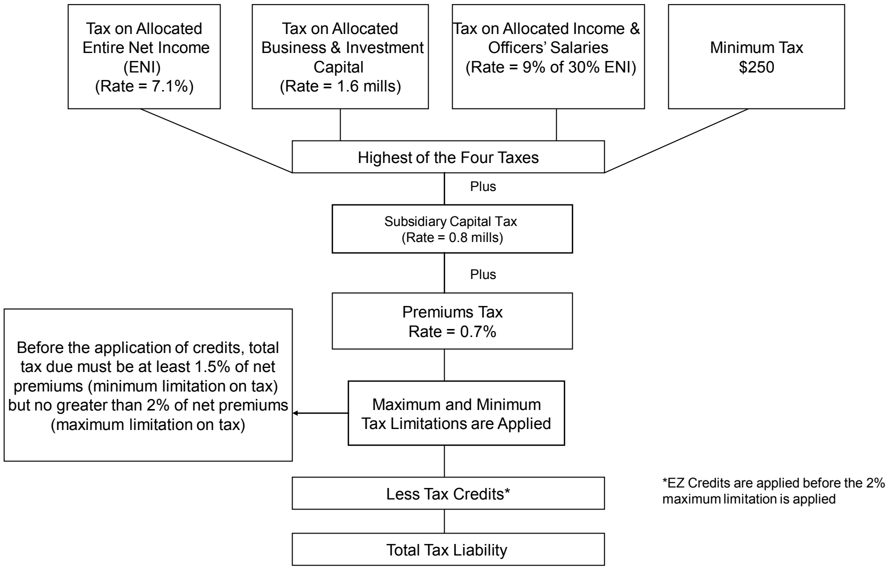
Base	Rate
Allocated entire net income	7.1 percent
Allocated business and investment capital	1.6 mills for each dollar
Allocated income and officers' salaries	9.0 percent of 30 percent of ENI
Minimum tax	$250

Tax is allocated to New York under the entire net income (ENI) base by a formula that apportions ENI based on weighted ratios of premiums (with a weight of nine) and wages (with a weight of one) earned or paid in New York, to total premiums and total wages for all employees for the tax year.

The second component is an additional franchise tax on gross premiums, less returned premiums. The tax rate on premiums is 0.7 percent and applies to premiums written on risks located or resident in New York. This tax is added to the sum of the tax due on the highest of the alternatives from the income base plus the tax imposed on subsidiary capital.

Maximum and minimum tax limitations are computed based on net premiums. Life insurers determine their maximum limitation by multiplying net premiums by 2.0 percent and their minimum limitation by multiplying net premiums by 1.5 percent. Under these limitations, the total tax calculated under the highest of the four alternative bases plus the tax imposed on subsidiary capital plus the 0.7 percent tax on net premiums must be at least as high as the minimum tax or "floor" (1.5 percent of net premiums) but no greater than the maximum limitation (2.0 percent of net premiums).

Computation of Article 33 Tax on Life Insurance Companies



*EZ Credits are applied before the 2% maximum limitation is applied

Generally, taxpayers with a tax liability that exceeds the floor may not reduce their liability with tax credits to a level below the floor. However, taxpayers may use Empire Zone and Zone Equivalent Area tax credits to do so.

Article 33 taxpayers conducting business in the Metropolitan Commuter Transportation District (MCTD) are subject to a 17 percent surcharge on the portion of their tax liability which is attributable to the MCTD area.

Article 33 of the Tax Law also imposes a premiums tax on captive insurance companies licensed by the Superintendent of Insurance for the privilege of conducting business or otherwise exercising a corporate franchise in New York. The tax is imposed on net premiums and net reinsurance premiums (gross premiums less return premiums) written on risks located or resident in the State at rates which vary with the amount of net premiums. The top rate is 0.4 percent on direct premiums and 0.225 percent on reinsurance premiums. Captive (i.e. affiliates that insure the risks of the other corporate members) insurers are subject to a minimum tax of $5,000. Tax credits are not allowed against the tax imposed on captive insurance companies and these companies are not subject to the business tax surcharge.

Other Taxes Imposed on Insurers

Article 33-A of the Tax Law imposes a tax at the rate of 3.6 percent of premiums on independently procured insurance. This tax is imposed on any individual, corporation or other entity purchasing or renewing an insurance contract covering certain property and casualty risks located in New York from an unauthorized insurer (an unauthorized insurer is an insurer not authorized to transact business in New York under a certificate of authority from the Superintendent of the Insurance Department).

The Insurance Law imposes a premiums tax on a licensed excess line (i.e. covering unique or very large risks) insurance broker when a policy covering a New York risk is procured through such broker from an unauthorized insurer. Transactions involving a licensed excess lines broker and an insurer not authorized to do business in New York are permissible under limited circumstances delineated in Article 21 of the Insurance Law. The tax is imposed at a rate of 3.6 percent of premiums covering risks located in New York.

The Insurance Law authorizes the Superintendent of Insurance to assess and collect retaliatory taxes from a foreign insurance corporation when the overall tax rate imposed by its home jurisdiction on New York companies exceeds the comparable tax rate imposed by New York on such foreign insurance companies.

Retaliatory taxes have been employed by the states since the nineteenth century to ensure a measure of fairness in the interstate taxation of insurance corporations. Retaliatory taxes deter other states from discriminating against foreign corporations and effectively require states with a domestic insurance industry to maintain an overall tax rate on insurance corporations that is generally consistent with other states.

Nevertheless, there are a variety of mechanisms for taxing insurance corporations throughout the states, and differences in overall tax rates among the states are inevitable. New York provides an additional measure of protection for its domestic insurance industry by allowing domestic corporations to claim a credit under Article 33 of the Tax Law for 90 percent of the retaliatory taxes legally required to be paid to other states.

Receipts from the 17 percent business tax surcharge imposed on insurance companies conducting business in the MCTD are deposited in the Mass Transportation Operating Assistance Fund (MTOAF).

Administration

Insurance companies that reasonably expect their tax liability to exceed $1,000 for the current tax year are required to make a mandatory first installment of estimated tax and three additional estimated payments. The mandatory first installment is due 75 days from the end date of a taxpayer's fiscal year. The remaining three estimated tax payments are due on the 15th day of the third month of the fiscal year quarter. The majority of the taxpayers have a fiscal year that ends December 31. The mandatory first installment for these taxpayers is due March 15 with the remaining three estimated payments due on June 15, September 15 and December 15. A final payment is also required of all taxpayers. This payment is due with the mandatory first installment. Taxpayers that expect their tax liability to exceed $100,000 for the current tax year are required to make a mandatory first installment equal to 40 percent of their prior year liability. Taxpayers with expected liability greater than $1,000 and less than $100,000 make a mandatory first installment equal to 25 percent of their prior year liability. Life insurance companies with expected liability greater than $1,000 make a mandatory first installment equal to 40 percent of their prior year liability.

Tax Expenditures

Tax expenditures are defined as features of the Tax Law that by exclusion, exemption, deduction, allowance, credit, deferral, preferential tax rate or other statutory provision reduce the amount of a taxpayer’s liability to the State by providing either economic incentives or tax relief to particular entities to achieve a public purpose. Article 33 taxpayers are eligible for several targeted tax credits, including the certified capital companies (CAPCOs) credit, the investment tax credit (ITC), the long-term care insurance credit, and Empire Zones credits. For a more detailed discussion of tax expenditures, see the *Annual Report on New York State Tax Expenditures*, prepared by the Department of Taxation and Finance and the Division of the Budget.

There are also several types of insurance contracts that are exempt from the franchise tax. These include, but are not limited to, certain annuity contracts, certain reinsurance premiums and certain health insurance contracts for insured’s aged 65 years and older. Certain corporations and other entities that provide insurance are exempt from State franchise taxes and the regional business surcharge. Non-profit medical expense indemnity corporations and other health service corporations, organized under Article 43 of the Insurance Law, are exempt from these State taxes. In addition, cooperative insurance companies in effect (operation) prior to January 1, 1974, are exempt from taxation while those formed on or after that date are subject to the tax.

Significant Legislation

The significant statutory changes to this tax source since 1990 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1990		
Temporary Business Tax Surcharge	Imposed a temporary 15 percent surcharge on insurance tax liability otherwise due. Subsequent legislation eliminated the surcharge over a three-year period starting in 1994.	January 1, 1990
Legislation Enacted in 1997		

INSURANCE TAXES

Subject	Description	Effective Date
Premium Tax Rate for Life Insurers	Reduced the premium tax rate from 0.8 percent to 0.7 percent.	January 1, 1998
Cap on Tax Liability	Reduced the limitation on tax liability for life insurers from 2.6 percent to 2.0 percent.	January 1, 1998
Credit for Investment in Certified Capital Companies (CAPCOs)	Changed credit to equal 100 percent of amount invested in CAPCO's for taxable years beginning after 1998. The rate was changed to equal 10 percent per year for ten years. The statewide cap was set at $100 million.	January 1, 1999
Captive Insurance Companies	Allowed the formation of captive insurance companies. Subject to a special premiums tax with a top rate of 0.4 percent or $5,000. This is in lieu of the premiums and income-based tax.	January 1, 1998
Legislation Enacted in 1999		
CAPCOs	Established CAPCO Program Two. Increased Statewide cap from $100 million to $130 million.	January 1, 2001
State Insurance Fund	Conformed the State Insurance Fund tax treatment to the regular insurance tax.	January 1, 2001
Entire Net Income (ENI) Tax Rate	Reduced ENI tax rate over a three-year period: • 8.5 percent for taxable years beginning after June 30, 2000 and before July 1, 2001. • 8.0 percent for taxable years beginning after June 30, 2001 and before July 1, 2002. • 7.5 percent for taxable years beginning on or after July 1, 2002.	June 30, 2000
Cap on Tax Liability	Reduced the limitation on tax liability for non-life insurers over a three-year period: • 2.4 percent for taxable years beginning after June 30, 2000 and before July 1, 2001. • 2.2 percent for taxable years beginning after June 30, 2001 and before July 1, 2002. • 2.0 percent for taxable years beginning on or after July 1, 2002.	June 30, 2000
Legislation Enacted in 2000		
CAPCOs	Established CAPCO Program Three. Increased the statewide cap from $130 million to $280 million.	January 1, 2002
Investment Tax Credit	Allowed insurance taxpayers that are brokers/dealers in securities to claim a credit for equipment or buildings used in broker/dealer activity and in activities connected with broker/dealer operations.	Available for property placed in service between January 1, 2002 and October 1, 2003.
Empire Zones Program	Provided Qualified Empire Zone Enterprises (QEZE) tax incentives in Empire Zones. Transformed the current Economic Development Zones into virtual "tax-free" zones for certain businesses. The enhanced benefits of this program include a tax credit on real property taxes paid, tax reduction credit, and sales and use tax exemption.	January 1, 2001
legislation Enacted in 2002		
Estimated Payments	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year's liability for non-life insurance companies under Article 33. Life insurance companies, which currently pay a first quarterly payment of 40 percent, are not affected. Taxpayers whose prior year's liability exceeds $100,000 are affected. Taxpayers whose prior year's liability is between $1,000 and $100,000 will continue to make a first quarterly payment of 25 percent of the prior year's liability. Sunsets for tax years beginning on or after January 1, 2006, and expires January 1, 2007.	January 1, 2003
Legislation Enacted in 2003		
Insurance Tax Structure	Changed the tax base for insurance taxpayers as follows: • Life and Health insurance taxpayers covering life and accident/health premiums are taxed on the four tax bases and are now subject to a minimum tax of 1.5 percent of premiums. • Non-life insurers covering accident & health premiums are subject to tax on 1.75 percent of premiums. • All other non-life insurers are subject to tax on 2.0 percent of premiums.	January 1, 2003

Subject	Description	Effective Date
Modification for Decoupling from Federal Bonus Depreciation	Required modifications to Federal taxable income for property placed in service on or after June 1, 2003 that qualified for the special bonus depreciation allowance allowed by the Federal Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003. The modifications do not apply to qualified resurgence zone property or qualified New York Liberty Zone property.	2003
Intangible Holding Companies	Required modifications to Federal taxable income relating to certain royalty and interest payments made with respect to the use of intangible property by related members or royalty and interest payments received from related members.	January 1, 2003
Superfund-Brownfield Credits	Created tax incentives for the redevelopment of brownfields through three tax credits: a redevelopment tax credit, a real property tax credit, and an environmental remediation insurance credit. There are three components in the redevelopment tax credit: a site preparation component, a tangible property component, and an onsite groundwater remediation component.	April 1, 2005
Legislation Enacted in 2004		
Fourth Certified Capital Company (CAPCO) Credit	Established CAPCO Program Four. Increased the Statewide cap from $280 million to $340 million.	January 1, 2006
Legislation Enacted in 2005		
Fifth Certified Capital Company (CAPCO) Program	Established CAPCO Program Five. Provided an additional allocation of $60 million that is made available over a ten year period beginning in 2007.	April 1, 2005
Legislation Enacted in 2006		
Annuity Premiums	Amended the tax limitation applicable to certain insurance companies to provide that it is computed by using the amount of annuity premium of the insurance company that are in excess of 95 percent of total premiums.	January 1, 2006
Legislation Enacted in 2007		
Entire Net Income (ENI) Tax Rate	Reduced the rate on the ENI base from 7.5 percent to 7.1 percent.	January 1, 2007
Legislation Enacted in 2008		
REITs/RICs Provisions Technical and Substantive Amendments	Amended the 2007 REITs/RICs provisions to make closely-held REIT and RIC subsidiaries includable in a combined return with the closest affiliate in the corporate group that is a New York State taxpayer, regardless of the article under which that taxpayer files its New York return. Previously, REITs and RICs were treated as Article 9-A corporation franchise taxpayers by definition. This legislation also made other technical and conforming changes.	January 1, 2008
Qualified Production Activity Income (QPAI) Deduction	Decoupled New York State from Internal Revenue Code (IRC) Section 199 and required taxpayers to add back the qualified production activities income (QPAI) deduction when computing New York taxable income.	January 1, 2008
Mandatory First Installment Percentage	Provided that non-life insurance companies with a prior year tax liability over $100,000 must calculate their mandatory first installment payment of franchise tax and MTA surcharge at 30 percent, instead of the previous 25 percent, of the prior year's tax liability. Taxpayers with a prior year liability between $1,000 and $100,000 will continue to use the 25 percent amount to calculate their mandatory first installment. Life insurance taxpayers with a prior year liability between $1,000 and $100,000 will continue to use the 40 percent amount to calculate their mandatory first installment.	January 1, 2009
MTA Surcharge Extender	Extended the temporary MTA surcharge imposed on certain insurance taxpayers, which was scheduled to sunset for taxable years ending before December 31, 2009. The legislation extends the sunset date for four years to taxable years ending before December 31, 2013.	April 23, 2008

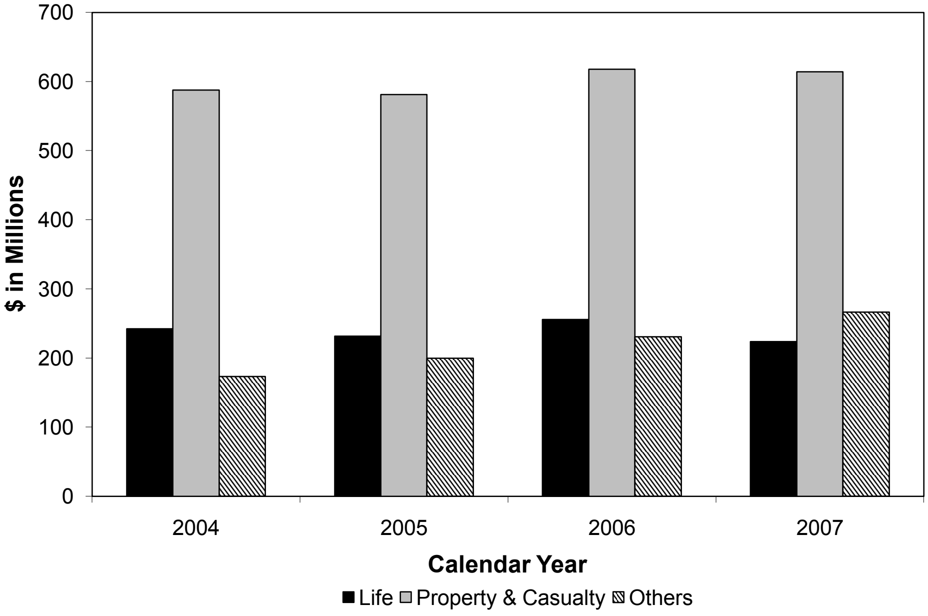
Subject	Description	Effective Date
Brownfields Program Reform	Amended the tangible property credit component to impose a limit of the lesser of $35 million or three times the qualifying costs used in calculating the site preparation and on-site groundwater components for projects accepted into the Brownfields program after June 22, 2008. Qualifying manufacturers accepted after this date would be subject to a tangible property credit component limitation equal to the lesser of $45 million or six times the qualifying costs used in calculating the site preparation and on-site groundwater components. Several other changes were effected, including increasing the credit percentages awarded under the site preparation and on-site groundwater components to as much as fifty percent.	June 23, 2008
Legislation Enacted in 2009		
Tax Treatment of Overcapitalized Insurance Companies	Required an overcapitalized captive insurance company to file a combined report with the corporation that directly owns or controls over 50 percent of the voting stock of the captive if that corporation is an Article 9-A taxpayer.	January 1, 2009
Estimated Payment Requirement	Increased the first quarterly installment of estimated tax from 30 percent to 40 percent of the prior year's liability for those corporate taxpayers whose liability exceeds $100,000.	January 1, 2010
Empire Zones Reform	Reformed the Empire Zones program. All companies that had been certified for at least three years were subjected to a performance review focusing on cost/benefit ratios.	January 1, 2008
	The QEZE real property tax credit was reduced by 25 percent and firms are no longer eligible for the QEZE sales tax refund/credit unless the sale qualifies for a refund or credit of the county or city sales and use tax.	April 1, 2009
	Moved current program sunset from December 30, 2011 to June 30, 2010.	April 7, 2009
Change to the Tax Classification of HMOs	Subjected for-profit HMOs to the franchise tax on insurance corporations under Article 33 of the Tax Law.	January 1, 2009
Legislation Enacted in 2010		
Historic Properties Tax Credits	Allows insurance companies to claim the nonresidential tax credit for historic property.	January 1, 2010
Tax Credit Deferral	Capped aggregate business related tax credit claims at $2 million per taxpayer for each of tax years 2010, 2011 and 2012. The total amount of credits deferred can be claimed by affected taxpayers on returns for tax years 2013, 2014 and 2015.	January 1, 2010
Technical Changes to Empire Zones Program	Made technical corrections to the 2009-10 Enacted Budget Empire Zones Program changes. Clarified that the Legislature intended to decertify certain businesses retroactively to the 2008 tax year, clarified reporting provisions, and allowed qualified investment projects to claim the investment tax credit and employee incentive tax credit after June 30, 2010.	August 11. 2010
Excelsior Jobs Program	Established a new economic development program to provide incentives based on job creation, investment and research and development expenditures in New York State.	July 1, 2010

TAX LIABILITY

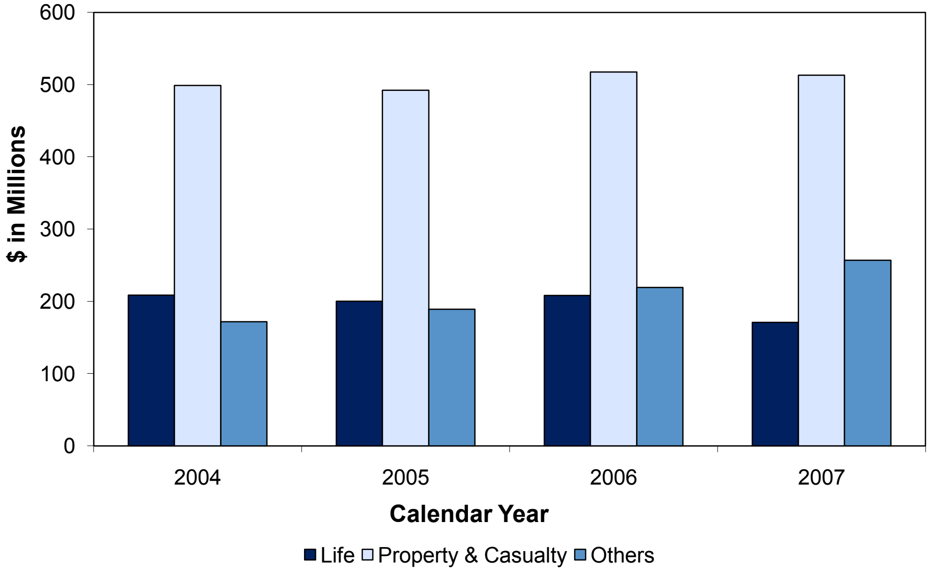
The Department of Taxation and Finance's Insurance Franchise Tax Study File contains tax liability data for the 2007 tax year, the most recent year for which such data are available. The 2007 Study File indicates that the property and casualty sector is the largest sector, accounting for 54.5 percent of total tax liability. Other insurers, which include accident and health insurers, are the second largest, with 27.3 percent of total liability. This is a change from the previous three years where life insurers were the second largest. The 18.2 percent balance is attributable to life insurers.

The following graphs show insurance tax liability for life insurers, property and casualty insurers and all other insurers from 2004 through 2007 before and after the application of the limitation of tax due as determined by taxable premiums and credits.

Article 33 Tax Liability before Limitation and Credits
(2004-2007 by Type of Insurer)



Article 33 Tax Liability after Limitation and Credits
(2004-2007 by Type of Insurer)



Property and Casualty and Life Companies

According to data from the New York State Insurance Department, the five largest lines of business under the property and casualty sector are automobile, workers' compensation, commercial multi-peril, general liability, and homeowners' multi-peril. The table below reports actual property and casualty premiums and growth from 2003 through 2009 for New York State. Total premiums for property and casualty companies declined by 3.0 percent in 2009.

PROPERTY AND CASUALTY INSURANCE PREMIUMS
NEW YORK CALENDAR YEAR
(millions of dollars/percent)

Lines of Insurance	2003	2004	2005	2006	2007	2008	2009
Automobile	12,721	12,875	12,344	12,039	11,533	11,475	11,509
percent change	*6.9*	*1.2*	*(4.1)*	*(2.3)*	*(4.2)*	*(0.5)*	*0.3*
Workers' Compensation	3,403	1,928	3,759	4,133	4,229	3,501	3,424
percent change	*(0.3)*	*(43.3)*	*95.0*	*10.0*	*2.3*	*(17.2)*	*(2.2)*
Commercial Multi-Peril	2,779	2,897	2,958	3,074	3,071	3,059	3,025
percent change	*3.4*	*4.3*	*2.1*	*3.9*	*(0.1)*	*(0.4)*	*(1.1)*
General Liability	3,741	4,018	3,997	4,387	4,308	4,489	4,157
percent change	*7.6*	*7.4*	*(0.5)*	*9.8*	*(1.8)*	*4.2*	*(7.4)*
Homeowners' Multi-Peril	2,901	3,183	3,427	3,615	3,799	3,966	4,101
percent change	*9.0*	*9.4*	*8.0*	*5.5*	*5.1*	*4.4*	*3.4*
Other	5,785	5,841	5,886	6,426	7,407	7,409	6,631
percent change	*6.5*	*1.0*	*0.8*	*9.2*	*15.3*	*0.0*	*(10.5)*
TOTAL P/C PREMIUMS	31,330	30,733	32,371	33,674	34,347	33,900	32,883
percent change	*6.0*	*(1.9)*	*5.3*	*4.0*	*2.0*	*(1.3)*	*(3.0)*

Source: New York State Insurance Department

For a more detailed discussion of the methods and models used to develop estimates and projections for insurance taxes, please see the *Economic, Revenue and Spending Methodologies* at www.budget.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

INSURANCE TAX RECEIPTS
(millions of dollars)

	Actual 2009-10	Estimated 2010-11	Change	Percent Change	Projected 2011-12	Change	Percent Change
General Fund							
Non-Audit Receipts	1,308	1,172	(136)	(10.4)	1,233	61	5.2
Audit Receipts	24	19	(5)	(19.1)	11	(8)	(42.1)
Executive Budget Initiatives	0	0	0	--	22	22	--
Total	**1,331**	**1,191**	**(140)**	**(10.5)**	**1,266**	**75**	**6.3**
Other Funds							
Non-Audit Receipts	148	111	(37)	(25.2)	130	19	17.1
Audit Receipts	11	6	(5)	(47.4)	2	(4)	(66.7)
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**160**	**117**	**(43)**	(26.7)	**126**	**9**	**7.7**
All Funds							
Non-Audit Receipts	1,456	1,283	(173)	(11.9)	1,363	80	6.2
Audit Receipts	35	25	(10)	(28.4)	13	(12)	(48.0)
Executive Budget Initiatives	0	0	0	--	22	22	--
Total	**1,491**	**1,308**	**(183)**	**(12.3)**	**1,392**	**84**	**6.4**

All Funds

2010-11 Estimates

All Funds collections through December are $810.3 million, a decrease of $171 million, or 17.4 percent below the comparable period in the prior fiscal year. The year-to-date decline is driven by lower December estimated payments on current year liability. Current year liability payments in December are estimated to have declined 23.2 percent from the prior year. This severe decline was unexpected since 2010 liability payments through September met expectations. Several large taxpayers paid less in December 2010 than December 2009 and less than their estimated September 2010 payments. According to industry data, the property and casualty segment of the insurance market has been declining since 2006 and commercial lines in particular possibly shrank in tax year 2010. Other anecdotal information suggests policyholders have focused on minimum insurance coverage requirements during the economic downturn and eliminated or reduced discretionary policy enhancements.

All Funds receipts for 2010-11 are estimated to be $1,308 million, a decrease of $182.7 million, or 12.3 percent below last year. The decrease is attributable to the factors described above. Adjusted for the impact of the HMO tax enacted for tax year 2009 and the increase in the March 2010 prepayment, All Funds receipts for 2010-11 would decline by 4.7 percent.

2011-12 Projections

All Funds receipts for 2011-12 are projected to be $1,392 million, an increase of $84 million, or 6.4 percent above 2010-11. The year-over-year increase reflects an expected recovery in the insurance market as the economy strengthens and the removal of the cooperative insurer exemption. Adjusted for the impact of this Executive Budget proposal growth would be 4.7 percent above 2010-11. The property and casualty market is forecast to grow in calendar year 2011. This would be the first year of growth since 2006 for this segment of the market.

General Fund

General Fund collections for 2010-11 reflect year-to-date trends and are estimated to be $1,191 million, a decrease of $140 million, or 10.5 percent below the prior year. The decrease reflects the same trends impacting 2010-11 All Funds receipts.

General Fund collections for 2011-12 are projected to be $1,266 million, an increase of $75 million, or 6.3 percent. The increase reflects the same trends impacting All Funds receipts for 2011-12.

Other Funds

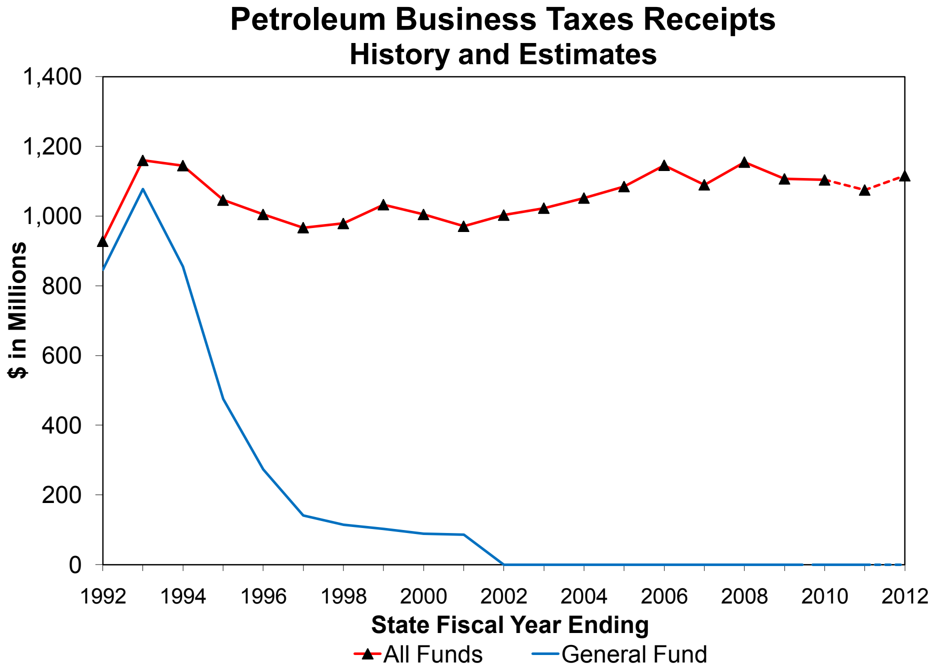
Insurance tax receipts from the surcharge that is deposited to MTOAF generally reflect the All Funds and General Fund trends described above. MTOAF insurance tax receipts for 2010-11 reflect year-to-date trends and are estimated to be $117 million. Receipts for 2011-12 of $126 million reflect the trends described above.

PETROLEUM BUSINESS TAXES

PETROLEUM BUSINESS TAXES
(millions of dollars)

	2009-10 Actual	2010-11 Estimated	Change	Percent Change	2011-12 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	1,103.6	1,075.0	(28.6)	(2.6)	1,116.0	41.0	3.8
All Funds	1,103.6	1,075.0	(28.6)	(2.6)	1,116.0	41.0	3.8

Note: Totals may differ due to rounding.



PETROLEUM BUSINESS TAXES BY FUND
(millions of dollars)

	Gross General Fund	Refunds	Net General Fund	Gross Special Revenue Funds	Refunds	Net Special Revenue Funds[1]	Gross Capital Projects Funds[2]	Refunds	Net Capital Projects Funds[2]	Net All Funds Receipts
2001-02	0	0	0	459	10	449	566	12	554	1,003
2002-03	1	0	1	462	8	454	578	10	568	1,023
2003-04	0	0	0	478	6	472	587	7	580	1,052
2004-05	0	0	0	492	6	486	607	8	599	1,085
2005-06	0	0	0	523	9	514	642	10	632	1,146
2006-07	0	0	0	493	7	486	613	9	604	1,090
2007-08	0	0	0	525	11	514	659	18	641	1,155
2008-09	0	0	0	508	15	493	639	25	614	1,107
2009-10	0	0	0	502	11	491	631	18	613	1,104
Estimated										
2010-11	0	0	0	491	13	478	617	20	597	1,075
2011-12										
Current Law	0	0	0	510	13	497	639	20	619	1,116
Proposed Law	0	0	0	510	13	497	639	20	619	1,116

[1] Dedicated Mass Transportation Trust Fund and Mass Transportation Operating Assistance Fund.

[2] Dedicated Highway and Bridge Trust Fund.

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- extend for one year the full or partial tax exemptions on E85, CNG, hydrogen and B20 when purchased for use in a motor vehicle engine; and
- modernize certain fuel definitions to avoid unintended tax consequences due to changes in Federal and State law. This proposal would also conform the enforcement provisions for highway use diesel fuel with those currently applied to motor fuel.

DESCRIPTION

Tax Base and Rate

Article 13-A of the Tax Law imposes a tax on petroleum businesses for the privilege of operating in the State, based upon the quantity of various petroleum products imported for sale or use in the State. Petroleum business tax (PBT) rates have two components: the base tax, whose rates vary by product type; and the supplemental tax, which is imposed, in general, at a uniform rate.

Tax rates are indexed with annual adjustments made on January 1 of each year to the base and supplemental tax rates to reflect the percent change in the producer price index (PPI) for refined petroleum products for the 12 months ending August 31 of the preceding year. To prevent significant changes in tax rates resulting from large changes in the petroleum PPI, tax rates cannot increase or decrease by more than 5 percent per year. In addition to the 5 percent cap on tax rate changes, the statute requires, in general, that the base and supplemental tax rates each be rounded to the nearest tenth of one cent. As a result, the percentage change in tax rates is usually less than the 5 percent limit on the change in the index.

Based on changes in the petroleum PPI, the PBT rate index decreased by 5 percent on January 1, 2010, and increased by 5 percent on January 1, 2011. The petroleum PPI is estimated to increase by at least 5 percent through August 2011, triggering an estimated PBT rate increase of 5 percent on January 1, 2012.

PETROLEUM BUSINESS NET TAX RATES FOR 2010 - 2012
(cents per gallon)

	2010			2011			2012[2]		
Petroleum Product	**Base**	**Supp**	**Total[1]**	**Base**	**Supp**	**Total[1]**	**Base**	**Supp**	**Total[1]**
Automotive fuel									
Gasoline and other non diesel	9.8	6.5	**16.3**	10.2	6.8	**17.0**	10.7	7.1	**17.8**
Diesel	9.8	4.75	**14.55**	10.2	5.05	**15.25**	10.7	5.30	**16.00**
Aviation gasoline or Kero-Jet Fuel	6.5	0.0	**6.5**	6.8	0.0	**6.8**	7.1	0.0	**7.1**
Non-automotive diesel fuels									
Commercial gallonage	8.9	0.0	**8.9**	9.3	0.0	**9.3**	9.7	0.0	**9.7**
Nonresidential heating	4.8	0.0	**4.8**	5.0	0.0	**5.0**	5.2	0.0	**5.2**
Residual petroleum products									
Commercial gallonage	6.8	0.0	**6.8**	7.1	0.0	**7.1**	7.4	0.0	**7.4**
Nonresidential heating	3.7	0.0	**3.7**	3.8	0.0	**3.8**	3.9	0.0	**3.9**
Railroad diesel fuel	8.5	0.0	**8.5**	8.9	0.0	**8.9**	9.4	0.0	**9.4**

1 The Tax rates represent the net tax rate after credits.

2 Projected — The projected petroleum producer price index increase of 10.9 percent through August 2011 will result in an increase of not more than 5.0 percent in the PBT tax rates on January 1, 2012.

PETROLEUM PPI AND PETROLEUM BUSINESS TAX RATE INDEX
(percent change)

Year	**Petroleum PPI**	**PBT Rate Index**
2001	55.84	5.00
2002	13.08	5.00
2003	(19.51)	(5.00)
2004	27.01	5.00
2005	12.94	5.00
2006	35.10	5.00
2007	35.89	5.00
2008	(1.22)	(1.20)
2009	42.08	5.00
2010	(34.93)	(5.00)
2011	18.55	5.00
2012*	10.94	5.00

* Estimated

The Motor Fuel Tax section contains a table showing New York's combined fuel tax rank among the 50 states and the District of Columbia.

Administration

The tax is collected monthly in conjunction with the State motor fuel taxes (Article 12-A). Article 13-A also imposes the petroleum business carrier tax on fuel purchased outside New York and consumed within the State. The carrier tax is collected quarterly along with the fuel use tax portion of the highway use tax (see section titled Highway Use Tax).

Under 1992 legislation, businesses with yearly motor fuel and petroleum business tax liability of more than $5 million are required to remit, using electronic funds transfer, their tax liability for the first 22 days of the month within three business days after that date. Taxpayers can choose to make either a minimum payment of three-fourths of the comparable month's tax liability for the preceding year, or 90 percent of actual liability for the first 22 days. The tax for the balance of the month is paid with the monthly returns filed by the twentieth of the following month.

Tax Expenditures

Specifically exempted from Article 13-A taxes are fuels used for manufacturing, residential or not-for-profit organization heating purposes, fuel sold to governments, sales for export from the State, kerosene other than kero-jet fuel, crude oil, liquefied petroleum gas (LPG), and certain bunker fuel. For a complete list of tax expenditure items related to the PBT, see the *New York State Tax Expenditure Report*.

Significant Legislation

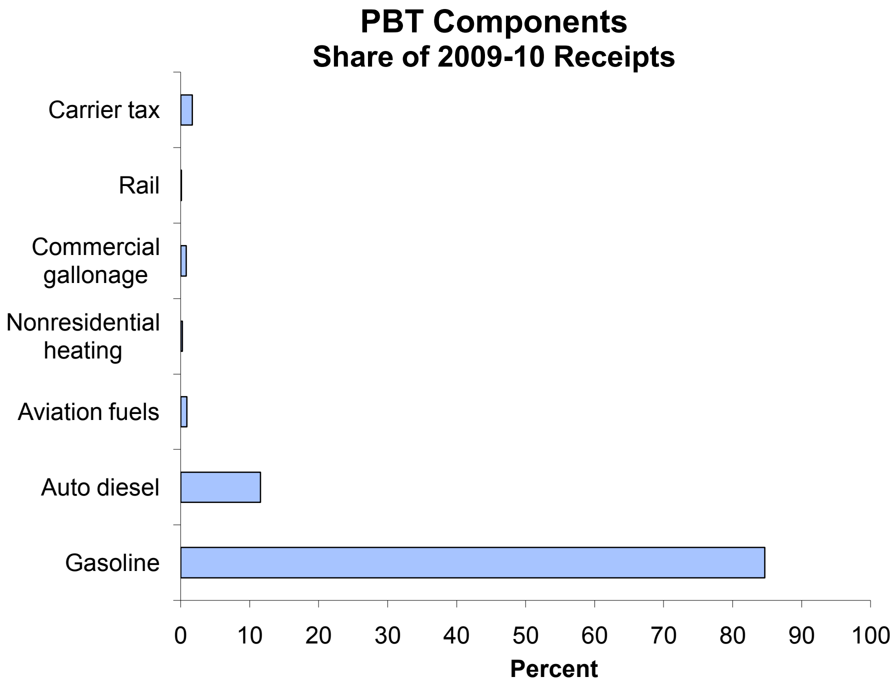
The significant statutory changes to this tax source since 1990 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1990		
Replace gross receipts tax	Converted the tax from a gross receipts basis to a cents-per-gallon basis. The tax no longer applied to kerosene, bunker fuel or liquid petroleum gasoline.	September 1, 1990
Business Tax Surcharge	Imposed a business surcharge at a rate of 15 percent for two years and ten percent for one year.	June 1, 1990
Lubricating Oil Tax	Imposed a tax of 10 cents per quart on lubricating oil.	September 1, 1990
Legislation Enacted in 1992		
Tax Liability	Required businesses with yearly motor fuel and petroleum business tax liability of more than $5 million to remit, using electronic funds transfer, their tax liability for the first 22 days of the month, within three business days after that date. Taxpayers can choose to make either a minimum payment of three fourths of the comparable month's tax liability for the preceding year, or 90 percent of actual liability for the 22 days. The tax for the balance of the month is paid with the monthly returns filed by the twentieth of the following month.	December 1, 1992
Legislation Enacted in 1993		
Fund Distribution	The majority of PBT receipts were primarily directed to the General Fund in years past. Since 2001, none of these receipts was directed to this Fund. The majority of funds are directed to the Dedicated Funds Pool, which is split between the Dedicated Mass Transportation Fund (37 percent) and the Dedicated Highway Bridge Trust Fund (63 percent). A smaller portion is directed to the Mass Transportation Operating Assistance Fund.	1993 and after
Legislation Enacted in 1994		
Indexing	Enacted tax rate indexing.	January 1, 1996
Business Tax Surcharge	The business tax surcharge was slowly phased out and eliminated on June 1, 1997.	January 1, 1994
Legislation Enacted in 1995		
Aviation Fuels	Effectively eliminated the supplemental tax imposed on aviation gasoline and kero-jet fuel and reduced the base tax rate for those products to a rate that is equivalent to the statutory supplemental tax rate. To maintain the first import system, which imposes the petroleum business tax on aviation gasoline upon importation, and still allow retail sellers of aviation gasoline to sell such product at a reduced rate, distributors of aviation gasoline must remit the full tax imposed on that product and may subsequently take a credit for the difference between the full rate and the reduced rate.	September 1, 1995
Not-for-profit Organizations	Provided full exemption for heating fuel that is for the exclusive use and consumption of certain not-for-profit organizations.	January 1, 1996

Legislation Enacted in 1996		
Railroads	Exempted diesel motor fuel used for railroads from the supplemental portion of the tax and reduced the base rate by 1.33 cents per gallon.	January 1, 1997
Commercial Heating	Provided full exemption from the supplemental tax imposed on distillate and residual fuels used by the commercial sector for heating.	March 1, 1997
Manufacturing	Expanded to a full exemption, the partial exemption provided for residual and distillate fuels used in manufacturing.	January 1, 1998
Diesel Supplemental Tax	Reduced by three-quarters of one cent per gallon the supplemental tax imposed on diesel motor fuel.	January 1, 1998
	Reduced by an additional one cent per gallon the supplemental tax imposed on diesel motor fuel.	April 1, 1999
Utilities	Increased by one-half cent per gallon the base tax credit for residual and distillate fuels used by utilities to generate electricity.	April 1, 1999
Legislation Enacted in 1997		
Vessels	Created a credit or refund for fuel used in vessels that was purchased in the State and consumed outside the State; clarified that the export credit/refund applies to export for use, as well as sale; stated that the legal incidence of the tax is on consumers; and limited the judicial remedies available to taxpayers.	April 1, 1984
Legislation Enacted in 1999		
Commercial Heating	Reduced by 20 percent the petroleum business tax rates on commercial gallons for space heating.	April 1, 2001
Mining and Extraction	Provided for reimbursement of petroleum business tax imposed on fuels used for mining and extraction.	April 1, 2001
Legislation Enacted in 2000		
Minimum Tax	Eliminated the minimum taxes on petroleum businesses and aviation fuel businesses under the PBT.	March 1, 2001
Commercial Heating	Reduced by 33 percent the petroleum business tax rates on commercial gallons for space heating.	September 1, 2002
Legislation Enacted in 2004		
Aviation Fuel	Eliminated PBT on fuels used for aircraft overflight and landing.	November 1, 2004
	Exempted fuel burned on takeoff by airlines operating non-stop flights between at least four cities in New York.	June 1, 2005
Legislation Enacted in 2005		
Enforcement Provisions	Required collection of taxes on sales to non-Native Americans on New York reservations.	March 1, 2006
Legislation Enacted in 2006		
Alternative Fuels	Exempted or partially exempted PBT on alternative fuels, including E85 and B20, sunsets September 1, 2011.	September 1, 2006

TAX LIABILITY

Petroleum business tax receipts are primarily a function of the number of gallons of fuel imported into the State by distributors. Gallonage is largely determined by overall fuel prices, the number of gallons held in inventories, the fuel efficiency of motor vehicles and State economic performance. The following chart displays the composition of PBT receipts by fuel type.



For a more detailed discussion of the methods and models used to develop estimates and projections for the petroleum business taxes, please see the *Economic, Revenue and Spending Methodologies* at www.budget.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2010-11 Estimates

All Funds collections through December are $818.6 million, a decrease of $34 million, or 4 percent below the comparable period in the prior fiscal year.

All Funds receipts for 2010-11 are estimated to be $1,075 million, a decrease of $28.6 million, or 2.6 percent below last year. The decrease in receipts is primarily accounted for by the 5 percent decrease in the PBT index on January 1, 2010, offset slightly by the 5 percent increase in the PBT index on January 1, 2011.

Petroleum business tax receipts derived from motor fuel and diesel motor fuel are estimated to follow the same consumption trends as fuel subject to the motor fuel excise tax (see section titled Motor Fuel Tax). Gasoline gallonage is estimated to increase by 0.7 percent and diesel gallonage is estimated to increase by 6.2 percent.

2011-12 Projections

All Funds receipts are projected to be $1,116 million, an increase of $41 million, or 3.8 percent above 2010-11. The increase in receipts is generated primarily by the 5 percent increase in the PBT Index effective January 1, 2011, and the projected 5 percent increase effective January 1, 2012.

General Fund

Legislation enacted in 2000 provided that all remaining PBT receipts deposited in the General Fund be deposited in the Dedicated Funds Pool, effective April 1, 2001.

Other Funds

In past years, revenues from the PBT have been shared by the General Fund and the Mass Transportation Operating Assistance Fund (MTOA). Prior to the 1990 revisions, the General Fund received 72.7 percent and MTOA received 27.3 percent or a guaranteed amount. The 1990 statute converted the tax from a gross receipts tax to a cents-per-gallon tax, expanded the tax yield, and limited the MTOA share to slightly more than 17.7 percent of the non-surcharge revenues – the dollar equivalent of its share prior to the expansion. Carrier tax receipts were deposited in the General Fund until April 1, 2001.

Separate 1991 transportation legislation provided that, effective April 1, 1993, 100 percent of the supplemental tax and a portion of the base tax, were to be split between the Dedicated Mass Transportation Trust Fund (DMTTF) and the Dedicated Highway and Bridge Trust Fund (DHBTF). Numerous pieces of legislation were enacted in subsequent years that reduced General Fund deposits and increased the amount of the base tax deposited in the dedicated transportation funds.

Legislation enacted in 2000 significantly increased the flow of PBT funds to the Dedicated Funds Pool. Effective April 1, 2001, all PBT receipts previously deposited in the General Fund, including the balance of the basic tax and the carrier tax, were redistributed to the DHBTF and the DMTTF.

Statutory changes to the allocation of the PBT base tax by fund type are reported in the following table.

PBT BASE TAX FUND DISTRIBUTION
(percent)

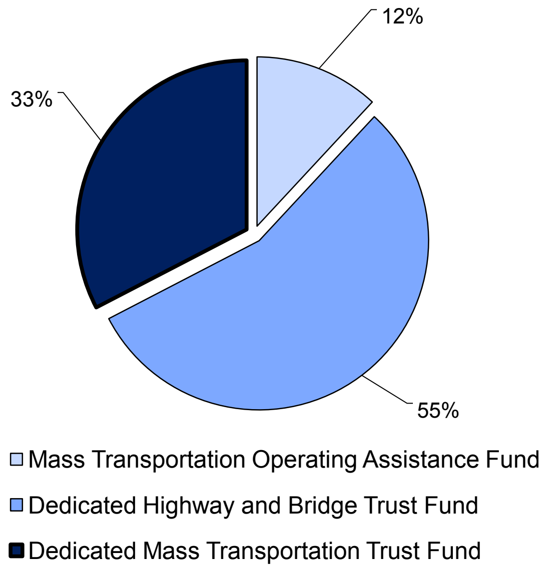
Effective Date	General Fund	MTOAF[1]	Dedicated Funds Pool[2]
Prior to April 1, 1993	82.3	17.7	0.0
April 1, 1993	28.3	17.7	54.0
September 1, 1994	22.4	18.6	59.0
September 1, 1995	18.0	19.2	62.8
April 1, 1996	17.4	19.3	63.3
January 1, 1997	14.5	19.3	66.2
January 1, 1998	12.4	19.5	68.1
April 1, 1999	10.7	19.5	69.8
April 1, 2001 and thereafter	0.0	19.7	80.3

[1] This fund is split between the Public Transportation System Operating Assistance Account and the Metropolitan Mass Transportation Operating Assistance Account.

[2] This pool is split between the Dedicated Mass Transportation Trust Fund (37 percent) and the Dedicated Highway and Bridge Trust Fund (63 percent).

Petroleum business tax receipts in 2010-11 are estimated to be $127.6 million for MTOA, $596.8 million for the DHBTF, and $350.6 million for the DMTTF. Petroleum business tax receipts in 2011-12 are projected to be 133.4 million for MTOA, $619 million for the DHBTF, and $363.6 million for DMTTF.

Estimated PBT Receipts 2010-11

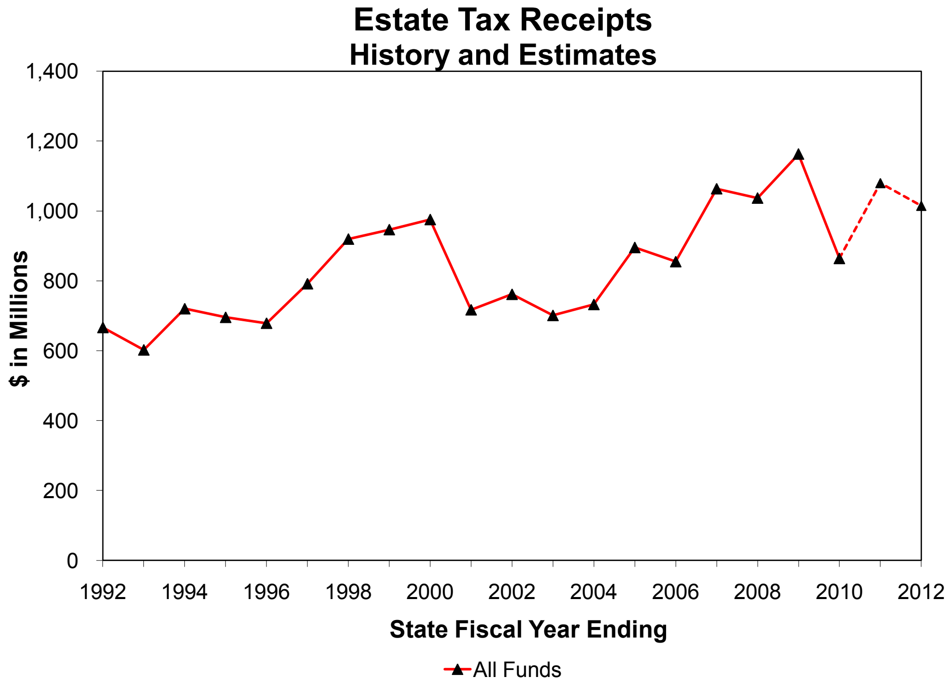


ESTATE TAX

ESTATE TAX
(millions of dollars)

	2009-10 Actual	2010-11 Estimated	Change	Percent Change	2011-12 Projected	Change	Percent Change
General Fund	864.0	1,080.0	216.0	25.0	1,015.0	(65.0)	(6.0)
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	864.0	1,080.0	216.0	25.0	1,015.0	(65.0)	(6.0)

Note: Totals may differ due to rounding.



ESTATE TAX BY FUND
(millions of dollars)

	Gross General Fund	Refunds	General Fund	All Funds Receipts
2001-02	791	30	761	761
2002-03	736	35	701	701
2003-04	760	28	732	732
2004-05	936	41	895	895
2005-06	892	37	855	855
2006-07	1,122	59	1,063	1,063
2007-08	1,079	42	1,037	1,037
2008-09	1,277	114	1,163	1,163
2009-10	909	45	864	864
Estimated				
2010-11	1,135	55	1,080	1,080
2011-12	1,070	55	1,015	1,015

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

Tax Base and Rate

New York imposes a tax on the estates of deceased State residents and on the part of a nonresident's estate made up of real and tangible personal property located within New York State. The New York estate tax is based on the estate tax provisions of the Federal Internal Revenue Code as amended through July 22, 1998, with New York modifications.

The tax base is calculated by first determining the value of the gross estate using Federal estate tax provisions. The Federal gross estate comprises the total amount of real estate, stocks and bonds, mortgages, notes, cash, insurance on the decedent's life, jointly owned property, other miscellaneous property, transfers during the decedent's life, powers of appointment, and annuities that the decedent owned.

The Federal gross estate is reduced by the Qualified Conservation Easement Exclusion and the following deductions: funeral expenses and expenses incurred in administering property subject to claims; debts of the decedent; mortgages and liens; net losses during administration, and expenses incurred in administration of the property not subject to claims; bequests to a surviving spouse (marriage deduction); charitable, public, and similar gifts; and a qualified family-owned business interest deduction. This yields the taxable estate for New York and becomes the basis for calculating New York's estate tax.

The total value of all items of real and tangible personal property of the taxpayer located outside of New York State is divided by the taxpayer's Federal gross estate to arrive at the proportion of the estate outside New York State. This proportion is then used to allocate the Federal credit for state death taxes to New York to arrive at the New York State estate tax.

New York's estate tax is calculated by using the Unified Rate Table and the table for computing the maximum New York State credit for state death taxes as they were in effect on July 22, 1998. The New York estate tax is equal to the amount of the credit for state death taxes which cannot exceed the amount of the Federal tax based on the July 22, 1998 rates and the current State unified credit. The computation of maximum New York State credit for state death taxes is a graduated schedule with rates that range from 0.8 percent on adjusted taxable estates in excess of $40,000 but less than $90,000, to 16 percent on adjusted taxable estates for New York State of $10,040,000 or more.

New York allows a Unified Credit that provides an exemption level of $1 million.

Administration

The Surrogate Court has jurisdiction of the probate of the estate and the authority to finalize the amount of the tax. The tax due is required to be paid on or before the date fixed for filing the return, nine months after the decedent's date of death. A twelve-month extension may be granted by the Commissioner of Taxation and Finance.

If the payment of the tax will cause undue hardship, the Commissioner may authorize a payment extension for up to four years from the decedent's date of death. It may be necessary for the taxpayer to provide a bond in an amount of no more than twice the amount due if an extension is approved for payment of the tax.

If the payment of the tax due is not made within nine months of the decedent's date of death, additional interest is charged to the remaining payments of the tax. The interest for extended payments is computed and compounded daily on the portion remaining from the first day of the tenth month following the decedent's date of death to the date of the payment. There is no discount for early payment of the estate tax.

The executor and the beneficiaries who have received property are personally liable for the payment of the estate tax. If there is no will, the Federal, New York and foreign death taxes paid or payable by the estate's representatives are apportioned among the beneficiaries.

There is reciprocity with other states with the collection of inheritance and estate taxes in nonresident estates. Refund claims of an overpayment of the tax must be filed by the executor within three years from the time the return was filed or two years from the time the tax was paid, whichever is later.

Tax Expenditures

Since the tax is equal to the Federal credit for state death taxes, as it existed on July 22, 1998, there is only one New York specific tax expenditure, the Qualified Family Owned Business Interest Deduction which has been eliminated from the Federal estate tax but is still allowed in New York.

Significant Legislation

The significant statutory changes since 1925 to the estate tax are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1925		
Estate Tax	Imposed an estate tax.	April 2, 1925
Legislation Enacted in 1963		
Estate Tax – Conformity	Adopted applicable Federal rules for determining gross estate and allowable deductions.	April 1, 1963
Legislation Enacted in 1971		
Estate and Gift - Gift Imposition	Imposed a gift tax as Article 26-A of the Tax Law.	January 1, 1972

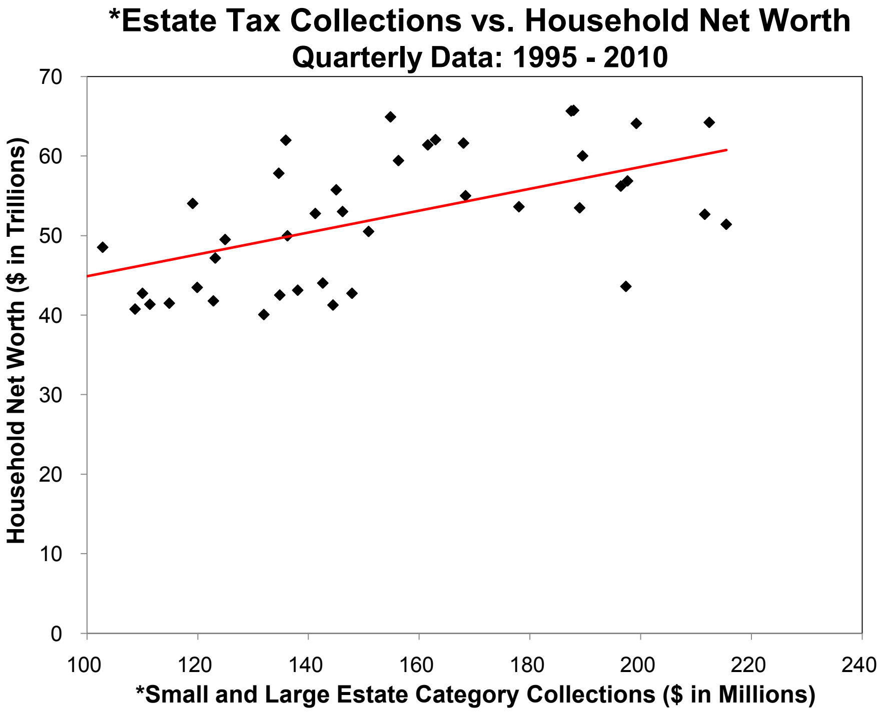
Subject	Description	Effective Date
Legislation Enacted in 1982		
Estate and Gift – Unification	Unified the estate tax and the gift tax rates and credit.	January 1, 1983
Legislation Enacted in 1994		
Unified Credit for Estate and Gift Taxes	Increased credit from $2,750 to $2,950, thereby eliminating the tax on taxable gifts/estates of $115,000 or below, up from $108,600.	June 9, 1994
Legislation Enacted in 1995		
Deduction	Authorized a principal residence deduction of $250,000 (maximum).	June 7, 1995
Legislation Enacted in 1997		
Unified Credit for Estate and Gift Taxes	Increased credit from $2,950 to $10,000, thereby eliminating the tax on taxable estates of $300,000 or below.	October 1, 1998
	Increased credit from $2,950 to $10,000, thereby eliminating the tax on taxable gifts of $300,000 or below.	January 1, 1999
	Set the State's unified credit to equal the Federal credit, but capped the maximum credit to exempt the first $1,000,000 of the estate.	February 1, 2000
Estate Tax Rate	Set the New York estate tax rates equal to the Federal credit for State estate taxes paid.	February 1, 2000
Gift Tax	Repealed.	January 1, 2000
Tax Liability Due Date	Increased from six to seven months.	October 1, 1998
	Increased from seven to nine months (same as Federal).	February 1, 2000
Legislation Enacted in 1998		
Closely-Held Business	Reduced interest rate from 4 percent to 2 percent on deferred payments of estate tax, where estate consists largely of a closely-held business.	January 1, 1998
Legislation Enacted in 1999		
Federal Conformity	Conformed New York State law to Federal law as of July 22, 1998, except for unified credit provisions.	August 9, 1999
Family-Owned Business Deduction	Repealed family-owned business exclusion and replaced with family-owned business deduction, conforming to Federal law changes.	December 31, 1997
Penalty and Interest	Waived penalty and interest on estate tax associated with a cause of action that was pending on the date of death, or which was associated with the decedent's death. The waiver is applicable from the date of the return disclosing the cause of action if filed.	July 13, 1999
Legislation Enacted in 2010		
Unified Credit	Set the State's unified credit to provide a $1,000,000 exemption level independent of the Federal Credit.	January 1, 2010

TAX LIABILITY

The recent yield of this tax has been heavily influenced by three factors: 1) tax law changes, 2) annual variations in the relatively small number of large estates, and 3) the value of the equity market, given the large component of corporate stock in large taxable estates. Tax law changes have reduced estate tax collections and thousands of the smallest estates have been effectively exempted from the tax. As a result, the volatility in receipts from this source is expected to increase, due to the random nature of collections from large estates.

In developing projections for estate tax receipts, the value of household net worth is used to forecast receipts from estates that make payments of less than $4 million. In addition to the value of equities, a distributional analysis is utilized to estimate receipts and the number of estates where payments exceed $4 million.

For a more detailed discussion of the methods and models used to develop estimates and projections for estate tax, please see the *Economic, Revenue and Spending Methodologies* at www.budget.state.ny.us.



RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2010-11 Estimates

All Funds receipts through December are $879.7 million, an increase of $197.5 million, or 29 percent above the comparable period in the prior fiscal year.

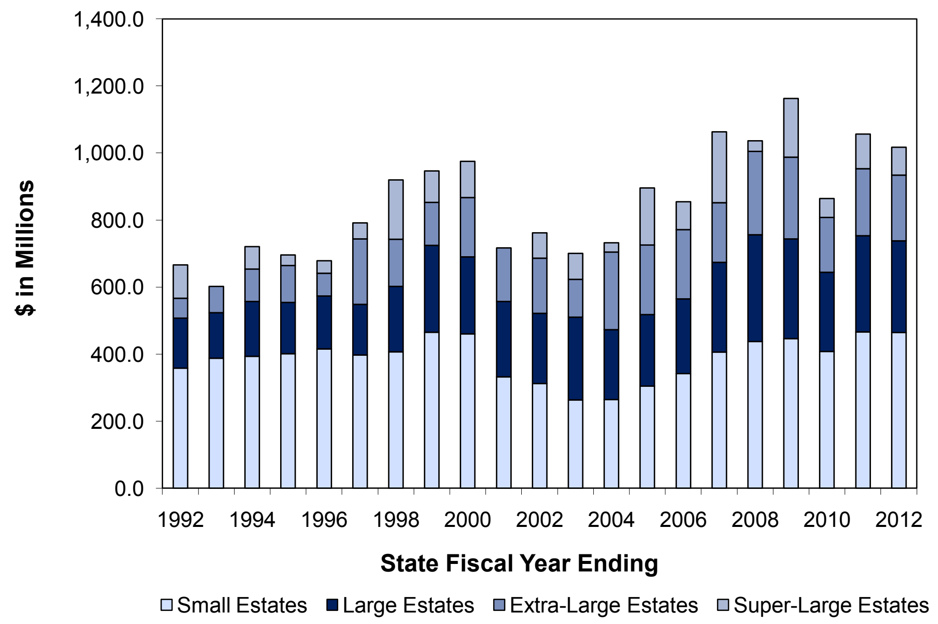
All Funds receipts for 2010-11 are estimated to be $1,080 million, an increase of $216 million, or 25 percent above 2009-10. Stock market gains in 2010 and increasing housing values have resulted in higher estate tax receipts in 2010-11.

Small estate (less than $0.5 million in payments) collections through December are $361.5 million, an increase of $64.9 million, or 21.9 percent above the comparable period in 2009-10. Small estate receipts for 2010-11 are estimated to be $478.8 million, an increase of $71 million, or 17.4 percent above 2009-10. This increase in small estate tax receipts reflects the factors noted above, combined with an above average number of returns.

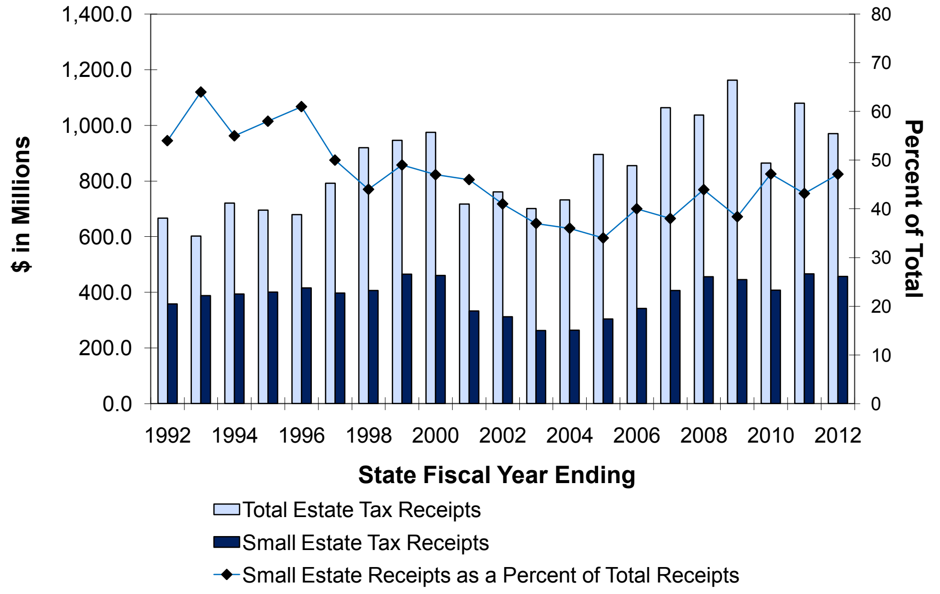
Large estate payments through December are $231.7 million, an increase of $52.2 million, or 29.1 percent above the comparable period in 2009-10. Large estates (between $0.5 and $4 million in payments) are estimated to increase to $297.3 million in 2010-11, reflecting significant increases during the first half of the year.

Extra-large and super-large estate collections through December are $286.5 million, an increase of $80.6 million, or 39.1 percent from the same period in 2009-10. Receipts from extra-large estates (payments between $4 million and $25 million) and super-large payments (payments greater than $25 million) are estimated to increase by $83.7 million from 2009-10 levels to $303.9 million. The average payment in this category has increased over last year's average, and the number of transactions year-to-date has also increased.

New York State Estate Tax Receipts



New York State
Total Estate Tax Receipts vs. Receipts from Small Estates



2011-12 Projections

All Funds receipts are projected to be $1,015 million, a decrease of $65 million, or 6 percent below 2010-11. This decline represents a return to more historical transaction levels following a year of strong growth in transactions in 2010-11.

Large estate tax payments are projected to decrease by 8 percent to $274 million, while collections from small estate payments are projected to decline by $15.8 million or 3.4 percent, to $463 million.

Super-large estate payments are projected to be $82 million in 2011-12 and payments from extra-large estates are expected to decrease to $196 million. The projections for the super-large and extra-large estates are based upon a distributional analysis, which suggests the number of super-large and extra-large estate payments will remain consistent with the number of payments received in 2010-11.

ESTATE TAX RECEIPTS BY SIZE OF ESTATE
(millions of dollars)

	Super-Large[1] and Extra-Large[2] Estates		Large Estates[3]		Small Estates[4]	Grand Total
	Number	**Taxes**	**Number**	**Taxes**	**Taxes**	**Taxes**
2001-02	21	240.1	167	208.8	312.5	761.4
2002-03	16	190.5	200	247.6	262.8	700.9
2003-04	26	259.1	169	209.1	264.1	732.3
2004-05	25	377.9	191	212.9	304.5	895.3
2005-06	25	289.7	173	223.1	342.1	854.9
2006-07	28	389.5	217	267.8	406.0	1,063.3
2007-08	31	280.9	264	318.3	437.5	1,036.7
2008-09	30	418.9	246	297.4	445.9	1,162.2
2009-10	23	220.2	197	236.4	407.4	864.0
Estimated						
2010-11	28	303.9	250	297.3	478.8	1,080.0
2011-12	27	278.0	230	274.0	463.0	1,015.0

[1] Payment of at least $25.0 million.

[2] Payment of at least $4.0 million, but less than $25.0 million.

[3] Payment of at least $0.5 million, but less than $4.0 million.

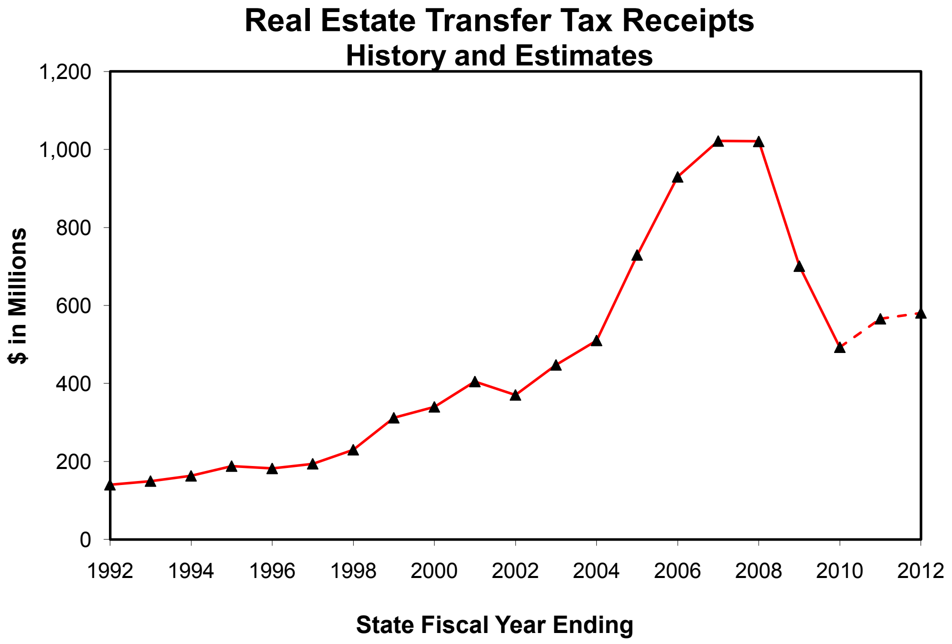
[4] Payment less than $0.5 million. (Small estates include all CARTS less all refunds.)

REAL ESTATE TRANSFER TAX

REAL ESTATE TRANSFER TAX
(millions of dollars)

	2009-10 Actual	2010-11 Estimated	Change	Percent Change	2011-12 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	493.1	566.4	73.3	14.9	620.0	53.6	9.5
All Funds	493.1	566.4	73.3	14.9	620.0	53.6	9.5

Note: Totals may differ due to rounding.



REAL ESTATE TRANSFER TAX BY FUND
(millions of dollars)

	Capital Projects Funds[1]	Gross Debt Service Funds[2]	Refunds	Net Debt Service Funds[2]	All Funds Receipts
2001-02	112	259	0	259	371
2002-03	112	336	0	336	448
2003-04	112	399	1	398	510
2004-05	112	618	1	618	730
2005-06	112	827	1	826	938
2006-07	147	876	1	875	1,022
2007-08	212	810	1	809	1,021
2008-09	237	465	1	464	701
2009-10	199	295	1	294	493
Estimated					
2010-11	119	448	1	447	566
2011-12					
Current law	119	502	1	501	620
Proposed law	119	502	1	501	620

[1] Enviornmental Protection Fund.

[2] Clean Water/Clean Air Bond Debt Sevice Fund.

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

Tax Base and Rate

The New York State real estate transfer tax (RETT) is imposed by Article 31 of the Tax Law on each conveyance of real property or interest therein, when the consideration exceeds $500, at a rate of $4 per $1,000 of consideration (price). The tax became effective August 1, 1968. Prior to May 1983, the rate was $1.10 per $1,000 of consideration. Effective July 1, 1989, an additional 1 percent tax was imposed on residential conveyances for which the consideration is $1 million or more.

Administration

Typically, the party conveying the property (grantor) is responsible for payment of the tax, either through the purchase of adhesive documentary stamps, by the use of a metering machine, or through other approaches provided by the Commissioner of Taxation and Finance.

For deeded transfers, the tax is paid to a recording agent (generally the county clerk). For non-deeded transactions, payments are made directly to the Commissioner of Taxation and Finance (“central office” collections). All payments are due to the recording agent within 15 days of the transfer. For counties with more than $1.2 million in liability during the previous calendar year, payments received between the first and fifteenth day of the month are due to the Commissioner by the twenty-fifth day of the same month. Payments received in such counties between the sixteenth and the final day of the month are due to the Commissioner by the tenth day of the following month. Payments from all other counties are due to the Commissioner by the tenth day of the month following their receipt. Although the county payment schedule is statutory, it is not useful for predicting monthly cash flows, due to the unpredictable payment behavior of some large counties.

Tax Expenditures

The tax rate imposed on conveyances into new or existing real estate investment trusts (REITs) is $2 per $1,000 of consideration. New York State (including agencies, instrumentalities, subdivisions, and public corporations), the United States (including agencies and instrumentalities), and the United Nations are exempt. If an exempt entity is the grantor in a transfer, the tax burden falls upon the grantee. Other significant exemptions from the tax are: conveyances pursuant to the Federal bankruptcy act and mere change of identity conveyances. A deduction from taxable consideration is allowed for any lien or encumbrance remaining at the time of sale involving a one-, two-, or three-family house or individual residential condominium unit.

TAX LIABILITY

Real estate transfer tax receipts are a function of the number and type of conveyance and the consideration per conveyance. Conveyances and prices are largely determined by mortgage rates, vacancy rates and inflation. The Manhattan commercial real estate market, which has historically been subject to large swings in demand and capacity, can have a significant impact on receipts.

For a more detailed discussion of the methods and models used to develop estimates and projections for the real estate transfer tax, please see the *Economic, Revenue and Spending Methodologies* at www.budget.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2010-11 Estimates

All Funds receipts through December are $426.1 million, an increase of $69.9 million, or 19.6 percent above the comparable period in the prior fiscal year.

All Funds receipts for 2010-11 are estimated to be $566.4 million, an increase of $73.3 million, or 14.9 percent above last year.

New York's recent real estate market experience has followed national trends, but in moderation. Home sales, both existing and new, have declined from their peaks; prices declined in many regions, and construction of new homes fell drastically. However, the declines in New York were less extreme than in many other states.

Downstate areas, which had enjoyed increases in property values during the real estate boom period, saw values and sales fall substantially. Many upstate regions had a more moderate upswing and less of a downward slide.

While the number of home sales is beginning to rebound from the bottom of the market, prices are still relatively low in most areas. Low mortgage interest rates are acting as a stimulator while continuing tighter credit standards are working in opposition to restrain growth. The excess supply of houses as well as an increasing inventory of foreclosures are also factors holding back a rebound in the housing market. Higher value properties have generally seen a larger price decline than more modestly priced parcels.

The growth in receipts between 2002 and 2007 closely followed the acceleration in housing values and sales as well as an increasing number of commercial property sales, especially in New York City. Subsequent to this period, the residential market has slowed or reversed in many areas of the State. The rapid escalation of rents in prime Manhattan locations, typical of this period, has ended as demand has waned.

New York City residential RETT collections have increased by approximately 36 percent year-over-year as the number and value of transactions has increased. In New York City, commercial RETT collections and transactions have increased year-over-year but are still below the peak numbers of 2007. In New York, regional markets have been mixed with sales prices showing somewhat less volatility than other parts of the country.

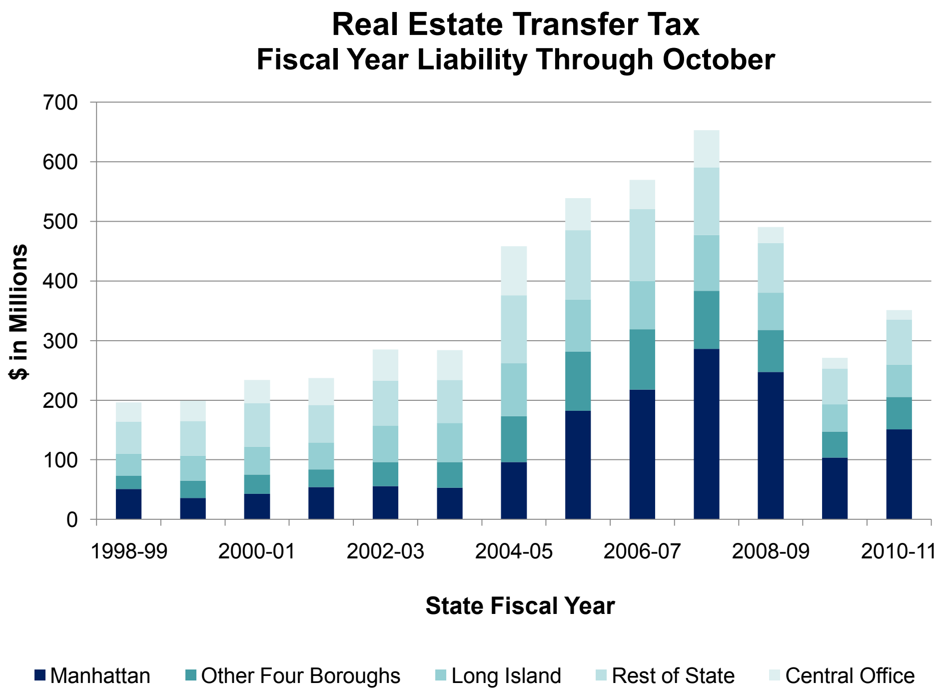
In the New York City area, the Federal Reserve Board reports that housing markets are tepid. The average sales price of residential property (including condos and co-ops) has increased slightly while the price per square foot remains flat.

The decline in the financial services sector employment and profitability not only impacted the number of commercial transactions but also likely reduced demand and prices in the condo and co-op markets. With recent gains in the financial sector, Manhattan data shows housing transactions and median sales prices are up over last year. New York City residential sales are now at 2004 levels.

The mansion tax has played an important role in the receipts growth that has characterized recent fiscal years. As residential home prices increased, especially downstate, so too did the proportion of homes priced in excess of $1 million. In State fiscal year 1998-99, the mansion tax accounted for 11.3 percent of all real estate transfer tax receipts. By State Fiscal Year 2004-05, this share had increased to 26 percent. In 2007-08, the mansion tax share was 31 percent, with total receipts reaching $316 million. Mansion tax proceeds in 2009-10 accounted for 35 percent of total RETT receipts, but mansion tax receipts of $174 million (7,567 transactions) were the lowest in six years. Through December 2010 the number of mansion tax transactions was 5,842 and collections totaled $136.6 million.

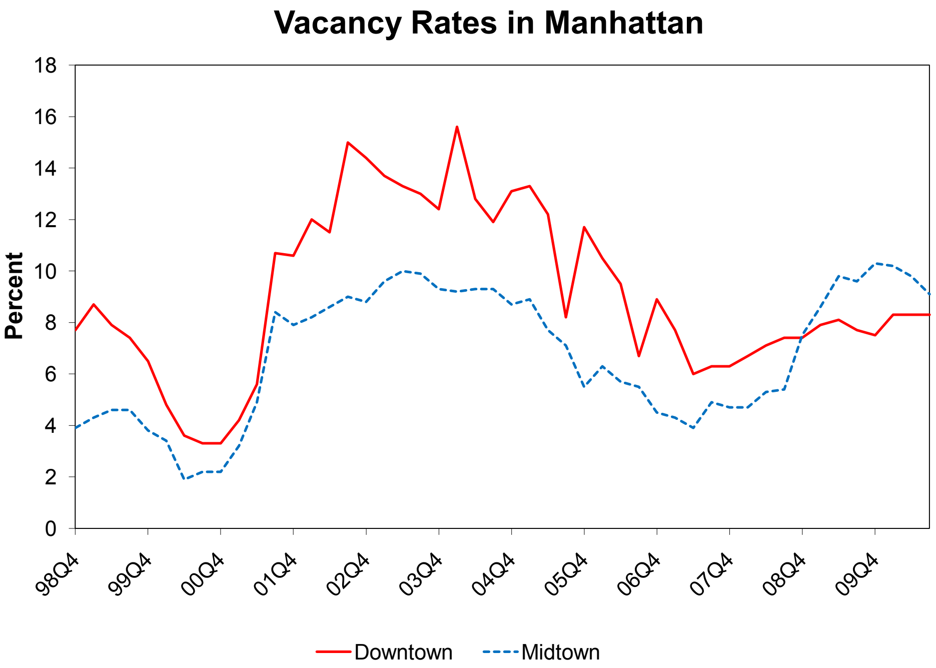
The number of real estate transfer tax transactions peaked at over 574,000 in 2005-06. The expected total for 2010-11 is now slightly more than 300,000.

The following chart compares tax liability by location through October since 1998-99.



Over the past seven years, much of the strength in transfer tax receipts has come from the increased volume and value of downstate commercial real estate sales. It is estimated that at one time approximately one-third of receipts were a result of commercial real estate sales. Much of this activity was generated by foreign investors as a result of the weak U.S. dollar. However, since 2007-08, the worldwide recession and tighter credit standards have caused much of this international investment to decline. Nationally, the number of homes sold to foreign nationals declined. While New York State does not rank high on the list of states attracting vacation home purchases by international investors, New York has historically been a major attraction for foreign investment in commercial property.

Currently, the Manhattan commercial market faces significant uncertainty as the credit markets adjust to the current situation. Credit availability is being restricted by tight lending standards. Vacancy rates are rising in some areas as new buildings are completed and become available while demand slackens. Downtown's vacancy rate was 8.3 percent during the third quarter of 2010 compared to 7.7 percent during the same period in 2009. The Midtown rate declined from 9.6 percent to 9.1 percent during the same period.



Source: C.B. Richard Ellis

2011-12 Projections

All Funds receipts are projected to be $620 million, an increase of $53.6 million, or 9.5 percent above 2010-11. Due to the volatile nature of the current residential housing and commercial markets, this receipts estimate contains a high degree of risk.

The short term outlook for the housing market is based upon a number of factors, including low interest rates, continued tight credit standards, and health of the financial sector. Average existing home prices are expected to increase modestly in 2011.

An increase in REITs and commercial activity is expected to occur in 2011 as investor optimism in New York City real estate increases and prices remain low. The strengthening of the financial sector is expected to positively impact the commercial market and demand for office space in the coming years.

General Fund

The General Fund will receive no direct deposit of real estate transfer tax receipts in 2010-11 or 2011-12. However, the balance of the Clean Water/Clean Air Fund, not needed for debt service, is transferred to the General Fund.

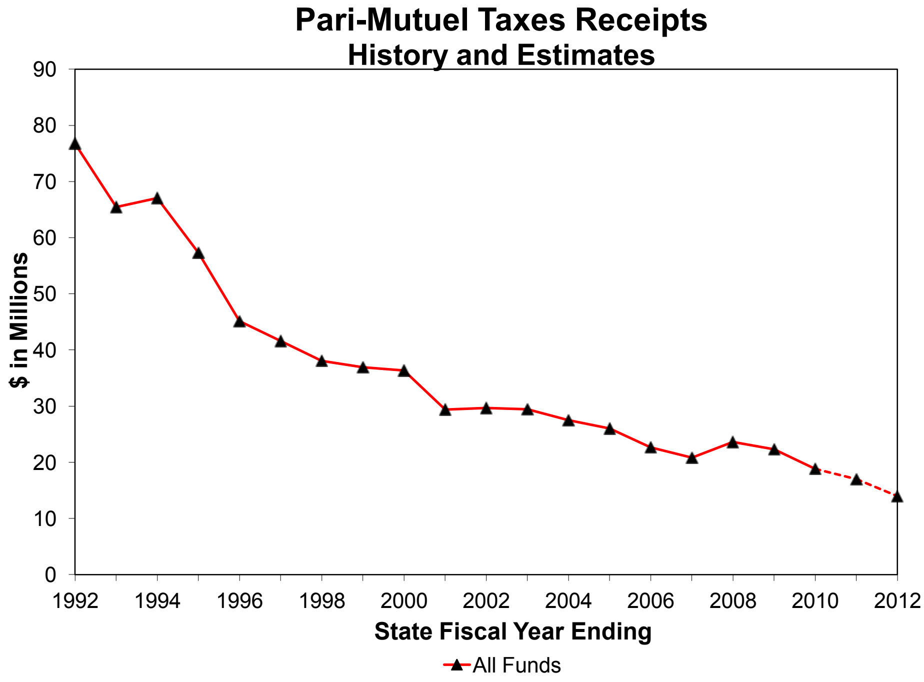
Other Funds

During 2010-11, the statutory amount of real estate transfer tax receipts to be deposited in the Environmental Protection Fund will be $119 million for 2010-11 and every year hereafter.

PARI-MUTUEL TAXES

PARI-MUTUEL TAXES (millions of dollars)							
	2009-10 Actual	2010-11 Estimated	Change	Percent Change	2011-12 Projected	Change	Percent Change
General Fund	18.8	17.0	(1.8)	(9.6)	14.0	(3.0)	(17.6)
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	18.8	17.0	(1.8)	(9.6)	14.0	(3.0)	(17.6)

Note: Totals may differ due to rounding.



PARI-MUTUEL TAXES BY FUND (thousands of dollars)				
	General Fund			All Funds
	Flat	Harness	OTB	Receipts
2001-02	10,525	852	18,269	29,646
2002-03	10,559	803	18,094	29,456
2003-04	9,999	796	16,694	27,489
2004-05	9,257	426	16,346	26,029
2005-06	5,736	258	16,673	22,667
2006-07	7,152	450	13,208	20,810
2007-08	8,287	672	14,621	23,580
2008-09	7,602	589	14,110	22,301
2009-10	6,710	669	11,439	18,818
Estimated				
2010-11	6,600	700	9,700	17,000
2011-12	6,800	700	6,500	14,000

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Extend certain tax rates and authorization for account wagering for a period of one year.

DESCRIPTION

Tax Base and Rate

The State has levied taxes on pari-mutuel wagering activity conducted at horse racetracks since 1940. Off-track betting (OTB) parlors were first authorized in 1970 and simulcasting was first authorized in 1984. Each racing association or corporation and Off-Track Betting Corporation pays the State a portion of the commission (the "takeout") withheld from wagering pools (the "handle") as a tax for the privilege of conducting pari-mutuel wagering on horse races. There are numerous tax rates imposed on wagering on horse races. The rates vary depending upon the type of racing (thoroughbred or harness), the type of wager (regular, multiple, or exotic) and location at which it is placed (at the track, or off-track through simulcasting or at an Off-Track Betting Corporation). The average effective pari-mutuel tax rate was 0.92 percent of the handle in 2009.

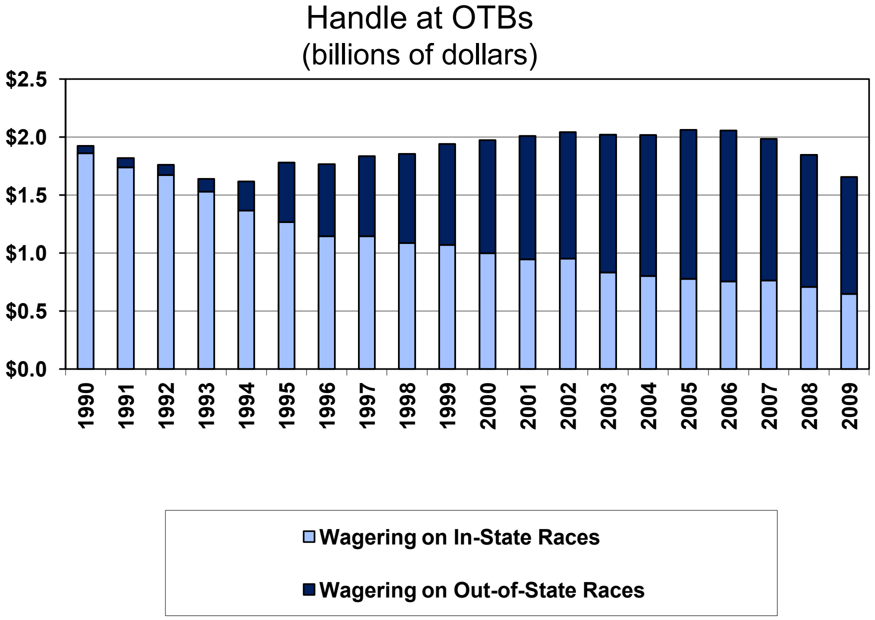
In an effort to support the New York agricultural and breeding industries, a portion of the takeout is allocated to the State's thoroughbred and standard bred (harness) horse breeding and development funds.

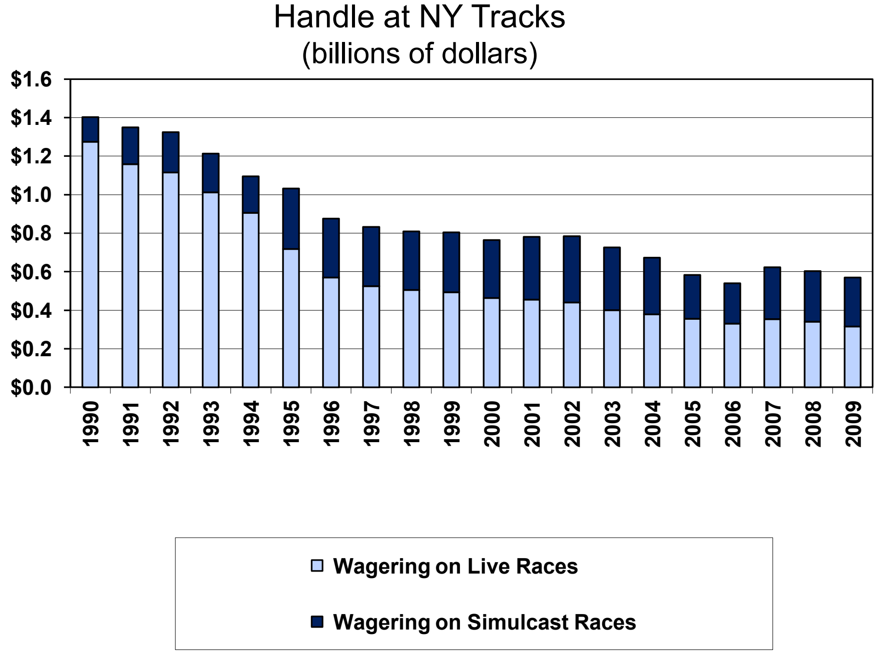
With the increase in OTB activity and simulcasting over the last 20 years, off-track bets now account for 75 percent of the statewide handle. The expansion of OTBs has contributed, in part, to the corresponding decline in handle and attendance at racetracks.

To promote growth of the industry, the State has authorized higher takeouts to support capital improvements at non-New York Racing Association (NYRA) tracks and, more importantly, reduced its on-track tax rates by as much as 90 percent at thoroughbred and harness tracks, authorized the expansion of simulcasting at racetracks and OTB facilities, allowed in-home simulcasting experiments and telephone betting, lowered the tax rates on simulcast wagering, redirected the State franchise fee on nonprofit racing associations to repay loans from the New York State Thoroughbred Capital Investment Fund, and reduced tax rates on NYRA bets. In 2001, the State authorized the operation of video lottery terminals, at authorized racetracks, and directed a portion of VLT receipts to be used for purse enhancements and for the breeder's funds.

In 2008, the State awarded a 25 year license to operate the Aqueduct, Belmont, and Saratoga Racetracks to the New York Racing Association. Also, in 2008, the State took over operation of the New York City Off-Track Betting Corporation.

In December of 2010, the New York City Off-track Betting Corporation ceased pari-mutuel wagering operations after the failure to reach an agreement on a restructuring plan to bring the corporation out of bankruptcy.





Administration

The New York State Racing and Wagering Board has general jurisdiction over all horse racing activities and all pari-mutuel betting activities, both on-track and off-track, in the State and over the corporations, associations, and persons engaged in gaming activities. The racetracks and OTBs calculate the pari-mutuel tax owed to the State based upon the handle, then remit the taxes to the Department of Taxation and Finance as prescribed by law.

Significant Legislation

The significant statutory changes to this tax source since 1940 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1940		
Imposed Pari-Mutuel Tax	Authorized pari-mutuel betting and imposed a pari-mutuel tax.	March 31, 1940
Legislation Enacted in 1973		
Off-Track Betting	Authorized off-track betting and the creation of regional off-track betting corporations.	July 1, 1973
Legislation Enacted in 1984		
Simulcasting	Authorized the simulcasting of horse racing.	July 1, 1984
Legislation Enacted in 1994		
Expanded Betting	Authorized widespread in-home simulcasting experiments, simulcasts of flat racing bridging the time gap between the end of New York flat racing and the beginning of harness racing, and tripled the number of out-of-State harness track simulcasts.	July 6, 1994
Breakage	Allotted the State's share of all OTB breakage to horse breeding funds.	July 6, 1994
Legislation Enacted in 1995		
Tax Rates	Lowered rate on regular bets (involving one horse) at NYRA from 5 percent to 4 percent and reduced the tax on NYRA wagers at OTBs: from 1.1 percent to 0.5 percent on regular and multiple (involving two horses) bets, and from 3.1 percent to 1.5 percent on exotic (involving three or more) bets.	June 1, 1995
Takeout	Increased the takeout on NYRA wagers involving two horses (multiple bet) from 17 percent to 20 percent, while lowering the takeout on NYRA wagers involving one horse (regular bet) from 17 percent to 15 percent.	June 1, 1995
Legislation Enacted in 1997		
Franchise Fee	Redirected the payment of NYRA franchise fee to repay debts owed to the New York State Thoroughbred Racing Capital Improvement Fund.	January 1, 1998
Legislation Enacted in 1998		
Tax Rates	Established the rate on all simulcast races at 1.5 percent for the initial race of the day and at 1.0 percent for later races, if NYRA is running. If NYRA is not racing, the rate on these races are 1.0 percent and 0.5 percent, respectively.	January 1, 1998
	Extended authorizations for lower tax rates for on-track and off-track bets on NYRA through June 30, 2002.	
Legislation Enacted in 1999		
Tax Rates	Cut the rate on all NYRA bets to 2.6 percent.	September 10, 1999
	Cut the rate on all NYRA bets to 1.6 percent.	April 1, 2001
Legislation Enacted in 2001		
Expanded Simulcasting	Lowered the takeout on NYRA races, decreased the percentage of takeout going to purses, allowed a "pick six" wager, provided two contemporaneous out-of-State simulcast signals during the Saratoga meeting, and provided a third out-of-State contemporaneous simulcast signal during the winter months and provided lower State tax rates for the additional simulcast racing.	June 12, 2001
Legislation Enacted in 2002		
Extended Expiring Laws	Extended to July 1, 2007, simulcasts for thoroughbred and harness racing, in-home simulcasts, telephone accounts and telephone wagering, simulcasts of out-of-State races, and current tax rates for off-track betting corporations.	June 17, 2002
	Extended the NYRA franchise to December 31, 2012, provided that Aqueduct racetrack commences video lottery gaming on April 1, 2003.	January 28, 2002
Legislation Enacted in 2003		

Subject	Description	Effective Date
NYRA Franchise	Extended franchise to December 31, 2013, provided that VLTs are in operation at the Aqueduct raceway on or before March 1, 2004. If NYRA is not able to initiate VLT operation by that date, then the NYRA franchise will expire on December 31, 2007.	January 29, 2003
Regulatory Fee	Instituted a regulatory fee to directly fund the State's regulation of racing, authorized tracks to set their own takeout rates within a narrow range, allowed unlimited simulcasts, and eliminated mandatory fund balances for telephone betting accounts.	May 16, 2003
Legislation Enacted in 2005		
Regulatory Fee	Increased the amount of the fee from 0.39 percent to 0.50 percent of handle.	July 11, 2005
OTB Tax Credit	Allowed a credit equal to 45 percent of the pari-mutuel tax attributable to increased handle at regional off-track betting corporations for races which are conducted at tracks located within the State.	July 1, 2005
Legislation Enacted in 2006		
Rate Reduction	Lowered the tax rate on regular, multiple and exotic bets for wagering on NYRA races at OTBs and wagering on thoroughbred races at simulcast theaters by 0.2 percentage points. The tax rates on all regular, multiple and exotic bets on out-of-state simulcasts placed between April 1, 2006 and March 31, 2007 are lowered by 0.2 percentage points and the distribution from wagers on these races to the thoroughbred breeder's fund is increased by 0.2 percentage points.	April 1, 2006
Legislation Enacted in 2008		
NYRA Franchise	Awarded the New York Racing Association a 25 year franchise to operate the Aqueduct, Belmont, and Saratoga Racetracks.	February 19, 2008
NYC OTB	Provided for the State to take over the operations of New York City's Off-Track Betting. Established a task force to study needed changes to the State's OTB structure.	June 17, 2008
Takeout	Increased the takeout on wagering on in-state thoroughbred races by one percentage point.	September 15, 2008
Takeout	Increased the takeout on wagering on out-of-state thoroughbred races by one percentage point.	March 15, 2009
Legislation Enacted in 2009		
Takeout	Repealed the one percentage point increase in takeout on wagering on out-of-state thoroughbred races.	March 13, 2009

TAX LIABILITY

The primary factors that affect pari-mutuel tax liability are: the handle and attendance at racetracks and OTB parlors, the number of simulcasts, and competition from other forms of gambling.

For a more detailed discussion of the methods and models used to develop estimates and projections for the pari-mutuel taxes, please see the *Economic, Revenue and Spending Methodologies* at www.budget.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2010-11 Estimates

All Funds receipts through December are $13.9 million, a decrease of $1.2 million, or 7.9 percent below the comparable period in the prior fiscal year. All Funds receipts for

2010-11 are estimated to be $17 million, a decrease of $1.8 million, or 9.6 percent below last year.

Receipts through December from off-track betting have decreased by $0.9 million to $7.8 million, or 10.4 percent below the comparable period in 2009-10. The lower year-to-date receipts are partially due to the closure of NYC OTB in December of 2010. Receipts from OTBs are estimated at $9.7 million for 2010-11, a decrease of $1.7 million, or 15.2 percent below the prior fiscal year. This decline reflects continued declines in handle during the fiscal year combined with a loss of receipts from NYC OTB.

Receipts through December from thoroughbred on-track handle, including simulcasts, is $5.6 million, a decrease of $0.3 million, or 5.1 percent below the same period last year. Receipts for the fiscal year are estimated at $6.6 million, a decline of $0.1 million.

Receipts of pari-mutuel taxes from on-track harness wagering are estimated to be $700,000 in 2010-11, consistent with 2009-10.

2011-12 Projections

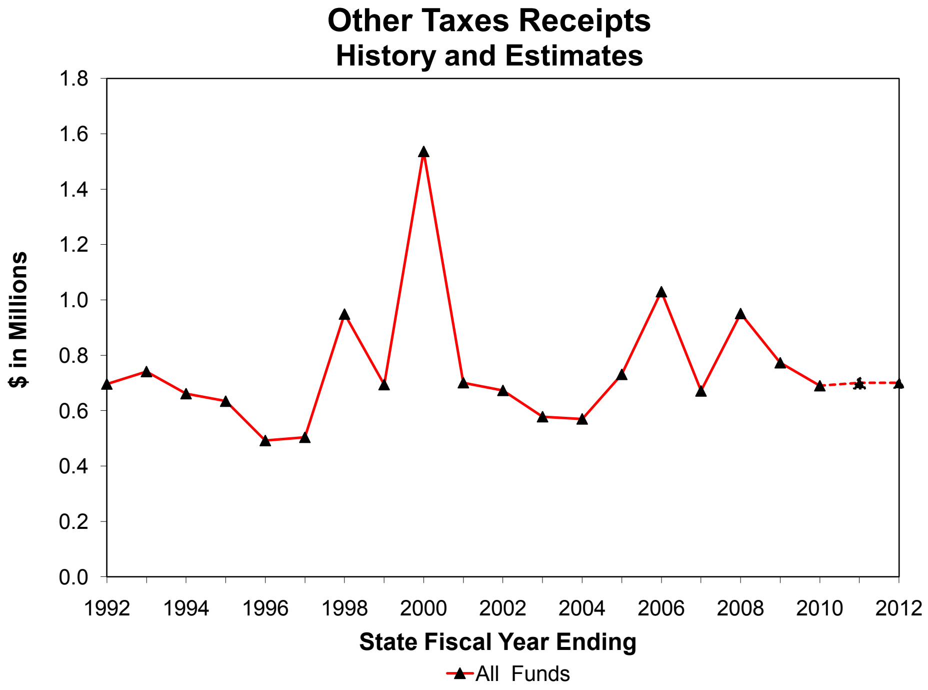
All Funds receipts from Pari-Mutuel taxes are projected to decline to $14 million in 2010-11 a decrease of $3 million, or 17.6 percent. This decline is largely due to the loss of pari-mutuel tax that was generated through the operation of the NYC Off-Track Betting Corporation. While a small portion of that business is expected to move to NYRA and the other regional OTBs, it is estimated that the closure will result in a $3.2 million decline in pari-mutuel tax receipts from OTBs in 2011-12, while pari-mutuel tax receipts from flat tracks increase slightly to $6.8 million. Receipts from harness track are projected to remain flat in 2011-12.

OTHER TAXES

OTHER TAXES
(millions of dollars)

	2009-10 Actual	2010-11 Estimated	Change	Percent Change	2011-12 Projected	Change	Percent Change
General Fund	0.7	0.7	0.0	0.0	0.7	0.0	0.0
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	0.7	0.7	0.0	0.0	0.7	0.0	0.0

Note: Totals may differ due to rounding.



OTHER TAXES BY FUND
(thousands of dollars)

	General Fund		All Funds
	Admissions	Exhibitions	Receipts
2001-02	285	388	673
2002-03	319	259	578
2003-04	344	226	570
2004-05	379	352	731
2005-06	474	556	1,030
2006-07	364	307	671
2007-08	370	581	951
2008-09	369	404	773
2009-10	340	350	690
Estimated			
2010-11	350	350	700
2011-12	350	350	700

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

Tax Base and Rate

Racing Admissions Tax – A tax is levied on the charge for admissions to racetracks and simulcast theaters throughout the State. The increase in simulcasts at off-track betting locations within New York, expanded interstate competition, and the growth of casino activity in close proximity to New York residents have led to declines in total paid attendance at tracks and in receipts from this source. In addition, the introduction of video lottery terminals at tracks has led many facilities to eliminate their admission charges.

Boxing and Wrestling Exhibitions Tax – A tax is levied on gross receipts from boxing and wrestling exhibitions, including receipts from broadcast and motion picture rights. A pay-per-view event with high spectator interest can impact the yield of the tax substantially, causing receipts to vary considerably from year to year.

The racing admissions tax rate is 4 percent of the admissions charge and the boxing and wrestling exhibitions tax rate is 3 percent.

Administration

The Department of Taxation and Finance is responsible for collecting the receipts of the racing admissions tax and the boxing and wrestling exhibitions tax.

Significant Legislation

In 1999, the tax rate on boxing and wrestling exhibitions was reduced from 5.5 percent to 3 percent with a $100,000 cap per exhibition ($50,000 from admissions and $50,000 from broadcast rights).

TAX LIABILITY

The major factor that affects racing admissions tax liability is the number of customers who attend on-track races; this is dependent on factors such as the weather and competition from other types of gambling or non-gambling entertainment.

The wrestling and boxing exhibitions tax can be affected by the importance of the events staged in a given fiscal year and by the degree of competition at other types of entertainment venues.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2010-11 Estimates

All Funds collections through December are $644,760, an increase of $29,790, or 4.8 percent above the comparable period in the prior fiscal year. All Funds receipts for 2010-11 are estimated to be $700,000, an increase of $9,593 from 2009-10.

2011-12 Projections

All Funds receipts are projected to remain at $700,000, the same total as for 2010-11. The number of boxing and wrestling exhibitions in New York State is expected to remain at historic levels. Paid attendance at race tracks is expected to remain at a level consistent with 2010-11 levels.

METROPOLITAN TRANSPORTATION AUTHORITY FINANCIAL ASSISTANCE FUND RECEIPTS

METROPOLITAN FINANCIAL ASSISTANCE FUND RECEIPTS
(millions of dollars)

	2009-10 Actual	2010-11 Estimated	Change	Percent Change	2011-12 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	1,352.9	1,669.0	316.1	23.4	1,736.0	67.0	4.0
All Funds	1,352.9	1,669.0	316.1	23.4	1,736.0	67.0	4.0

Note: Totals may differ due to rounding.

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

Chapter 25, Laws of 2009, created the Metropolitan Transportation Authority Financial Assistance Fund under the joint custody of the Commissioner of Taxation and Finance and the State Comptroller. Monies in this special fund are to be kept separately from and not be commingled with any other monies in the joint or sole custody of the State Comptroller or the Commissioner of Taxation and Finance. The fund contains all monies collected, credited or transferred to it from any other fund, account or source, including the revenues derived from sources imposed by Chapter 25, Laws of 2009. These revenue sources are:

- the metropolitan commuter transportation mobility tax;
- supplemental motor vehicle fees: a supplemental learner permit/license fee in the MCTD and a supplemental registration fee in the MCTD;
- the supplemental tax on passenger car rentals in the MCTD; and
- the tax on medallion taxicabs in the MCTD.

Revenues generated from the mobility tax are directed to the Mobility Tax Trust Account of the MTA Financial Assistance Fund. Revenues generated from the supplemental motor vehicle fees, supplemental tax on car rentals, and the tax on taxicab rides are directed to the MTA Aid Trust Account of the MTA Financial Assistance Fund.

ALL FUNDS RECEIPTS BY TAX
(millions of dollars)

	2009-10 Actual	2010-11 Estimated	Change	Percent Change	2011-12 Projected	Change	Percent Change
Mobility Tax	1,227.7	1,372.0	144.3	11.8%	1,437.0	65.0	4.7%
Motor Vehicle Fees	88.0	181.0	93.0	105.7%	181.0	0.0	0.0%
Passenger Car Rentals Tax	24.4	35.0	10.6	43.4%	37.0	2.0	5.7%
Taxicab Surcharge	12.8	81.0	68.2	532.8%	81.0	0.0	0.0%
Total	1,352.9	1,669.0	316.1	23.4%	1,736.0	67.0	4.0%

Note: 2009-10 mobility tax receipts include liability from March 1, 2009.

METROPOLITAN COMMUTER TRANSPORTATION MOBILITY TAX

Tax Base and Rate

Article 23 of the Tax Law imposes the metropolitan commuter transportation mobility tax on certain employers and self-employed individuals engaging in business within the Metropolitan Commuter Transportation District (MCTD). The MCTD consists of New York City and the counties of Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk, and Westchester. Article 23 applies to:

- employers (other than public school districts) beginning on or after March 1, 2009;
- employers that are public school districts within the MCTD beginning on or after September 1, 2009; and
- self-employed individuals for tax years beginning on or after January 1, 2009.

The mobility tax is imposed at a rate of 0.34 percent of an employer's payroll expense for all covered employees for each calendar quarter. For individuals with net earnings from self-employment, the tax is 0.34 percent of the net earnings from self-employment allocated to the MCTD for the tax year. For the 2009 tax year, the individual's mobility tax liability was computed using ten-twelfths of the total net earnings from self-employment allocated to the MCTD.

Exemptions: an employer that is an agency or instrumentality of the United States, the United Nations, or an interstate agency or public corporation created under an agreement or compact with another state or Canada is not subject to the mobility tax. (For example, the Port Authority of New York and New Jersey is exempt.)

Credits: no tax credit may be used to reduce the amount of mobility tax due.

No mobility tax is due from employers with a quarterly payroll of $2,500 or less; individuals with net earnings from self-employment allocated to the MCTD of $10,000 or less for a tax year; and the non-wage portion of S corporation member income.

Administration

Taxpayers who make electronic withholding tax payments must make their mobility tax payments at the same time. These payments are due within three days of the respective payroll date. Taxpayers who make quarterly withholding payments and those with self employment income must make quarterly payments. These payments are due on the last business day of the month following the end of the calendar quarter in which the taxpayer made the payroll or earned the self employment income (e.g. January 31 for the calendar quarter ending December 31).

Those with self employment income are also required to file an annual reconciliation return by the last business day of the month four months after the close of their fiscal year.

2010-11 Receipts and 2011-12 Projections

All Funds collections through December are $934.6 million. All Funds receipts for 2010-11 are estimated to be $1,372 million. Receipts for 2011-12 are projected to be $1,437 million.

SUPPLEMENTAL TAX ON PASSENGER CAR RENTALS

Effective June 1, 2009, a supplemental tax of 5 percent is imposed on the rental of a passenger vehicle in the MCTD. The tax base and administration of this tax are the same as the State Auto Rental Tax.

2010-11 Receipts and 2011-12 Projections

All Funds collections through December are $27.4 million. All Funds receipts for 2010-11 are estimated to be $35 million. Receipts for 2011-12 are projected to be $37 million.

TAX ON MEDALLION TAXICABS IN THE MCTD

Tax Base and Rate

Effective November 1, 2009, a tax of 50 cents was imposed on taxicab rides that originate in New York City and end within the MCTD. On July 1, 2010, the incidence of the tax was statutorily shifted to medallion owners from taxicab vehicle owners. The quarterly period and filing due dates are:

Quarterly period	Due date for filing return
January through March	April 20
April through June	July 20
July through September	October 20
October through December	January 20

2010-11 Receipts and 2011-12 Projections

All Funds collections through December are $60.9 million. All Fund receipts for both 2010-11 and 2011-12 are estimated to be $81 million annually.

NEW MOTOR VEHICLE FEES IN THE MCTD

Effective September 1, 2009, there is a supplemental motor vehicle license fee of one dollar per six month interval and a supplemental registration fee of $25 in the MCTD. The timing and administration of these fees are the same as the State fee.

2010-11 Receipts and 2011-12 Projections

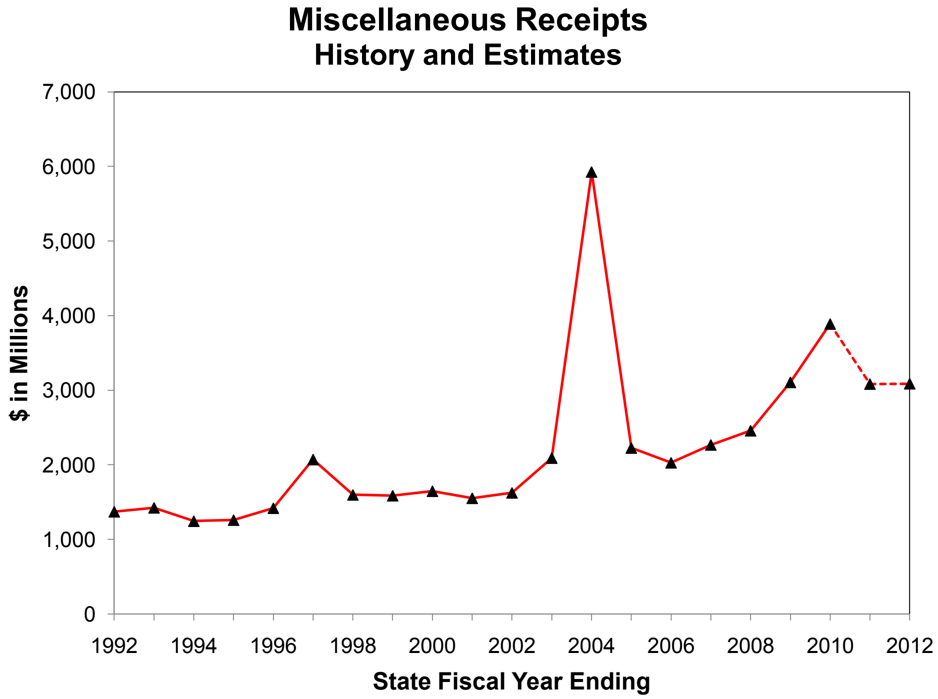
All Funds collections from the supplemental motor vehicle license fee through December are $16.5 million. All Funds receipts for both 2010-11 and 2011-12 are estimated to be $22 million annually.

All Funds collections from the supplemental registration fee through December are $118.6 million. All Funds receipts for 2010-11 and 2011-12 are estimated to be $159 million annually.

MISCELLANEOUS RECEIPTS
GENERAL FUND

MISCELLANEOUS RECEIPTS - GENERAL FUND (millions of dollars)	2009-10 Actual	2010-11 Estimated	Change	Percent Change	2011-12 Projected	Change	Percent Change
General Fund	3,887.9	3,083.6	(804.3)	(20.7)	3,088.2	4.6	0.2

Note: Totals may differ due to rounding.


Miscellaneous Receipts
History and Estimates

MISCELLANEOUS RECEIPTS - GENERAL FUND (millions of dollars)	2007-08	2008-09	2009-10	2010-11 Estimated	2011-12 Projected
Licenses, Fees, Etc.	604.5	561.7	709.9	627.7	455.0
Abandoned Property	693.8	698.1	608.1	650.0	745.0
Reimbursements	163.1	253.5	323.1	222.0	202.0
Investment Income	220.6	104.2	14.0	5.0	10.0
ABC License Fees	47.7	43.7	49.0	46.0	49.0
Motor Vehicle Fees	(50.9)	(42.0)	15.2	36.0	132.0
Other Transactions	776.1	1,487.5	2,168.6	1,496.9	1,495.2
Total	2,454.9	3,106.7	3,887.9	3,083.6	3,088.2

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- reduce dormancy periods on fourteen abandoned property items from 5 or 6 years to 3 years.

MISCELLANEOUS RECEIPTS – GENERAL FUND

DESCRIPTION

Miscellaneous receipts cover a broad range of unrelated revenue sources with significant recurring income derived from abandoned property, investment earnings, fees, licenses, fines, and various reimbursements to the State's General Fund. Each year, the reported receipts may be significantly impacted by various nonrecurring transactions.

Significant Legislation

The significant statutory changes since 1994 are summarized below.

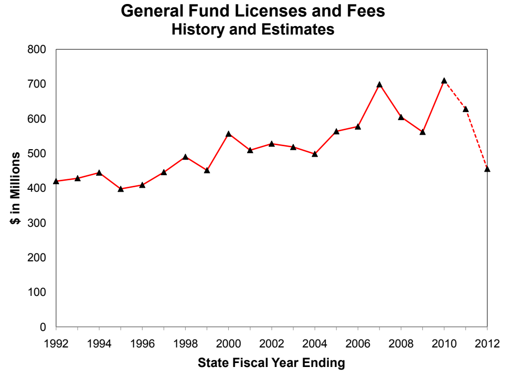
Subject	Description	Effective Date
Legislation Enacted in 1994		
Assessments	Extended for one year the assessments on health facility providers.	April 1, 1994
Mandatory Surcharges	Extended for two years the mandatory surcharges pertaining largely to standing or moving violations of the Vehicle and Traffic Law.	October 31, 1994
Legislation Enacted in 1995		
Assessments	Extended for one year the assessments on health facility providers.	April 1, 1995
Love Canal Claims	Provided for the deposit into the General Fund of moneys received from settlement of Love Canal claims.	April 1, 1995
Power Authority of NY	Provided for the one-time payment to the General Fund of $15.9 million in lieu of annual payments.	April 1, 1995
Legislation Enacted in 1996		
Assessments	Extended for one year the current assessments on health facility providers and imposed new assessments.	April 1, 1996
Power Authority, MMIA, Workers Compensation	Provided for the deposit into the General Fund of moneys from these entities, respectively: $50 million, $481 million, and $97 million.	April 1, 1996
Fees and Fines	Moved into the General Fund receipts previously deposited into various special revenue accounts.	August 31, 1996
Legislation Enacted in 1997		
Assessments	Provided for the collection of assessments for prior years from certain health facilities.	January 1, 1995
	Initiated a phase-out of the assessments on private health facility providers.	April 1, 1997
Mandatory Surcharges	Extended for two years the mandatory surcharges pertaining largely to standing or moving violations of the Vehicle and Traffic Law.	October 31, 1997
Alcohol Beverage Control License Fees	Changed the required purchase of a triennial alcohol beverage license to allow licensees to continue to purchase a triennial license or optionally purchase an annual or biennial license at a prorated cost.	December 1, 1998
Legislation Enacted in 1998		
Assessments	Accelerated the phase-out of assessments on private health facility providers.	April 1, 1998
Legislation Enacted in 1999		
Assessments	Further accelerated the phase-out of assessments on private health facility providers.	April 1, 1999
Mandatory Surcharges	Extended for two years the mandatory surcharges pertaining largely to standing or moving violations of the Vehicle and Traffic Law.	October 31, 1999
Legislation Enacted in 2000		
Assessments	Provided amnesty on interest and penalties for private health facilities that paid any outstanding assessments by March 31, 2001.	April 1, 2000
Legislation Enacted in 2001		
Mandatory Surcharges	Extended for two years the mandatory surcharges pertaining largely to standing or moving violations of the Vehicle and Traffic Law.	October 31, 2001
Legislation Enacted in 2002		

Subject	Description	Effective Date
Supplemental Wireless Service Surcharge	Increased from $0.70 to $1.20 monthly the State wireless communication service surcharge.	August 1, 2002
Alcohol Beverage Control License Fees	Increased alcohol beverage license fees for most licensees by 28 percent.	September 1, 2002
Legislation Enacted in 2003		
Abandoned Property	Reduced the time period for collecting abandoned property related to the demutualization of insurance companies, from five years to two.	January 1, 2003
Assessments	Increased cost recovery assessments' cap from $20 million to $40 million.	April 1, 2003
Criminal Fines	Increased criminal fines deposited into the Justice Court Fund from between $100 and $1,500 to $150 and $2,250.	April 1, 2003
Lobbyist Fee	Increased annual lobbyist registration fees to $100 in 2004 and $200 in 2005.	April 1, 2003
Uncashed Checks	Reduced the dormancy period of uncashed checks from three years to one year.	April 1, 2003
Background Checks	Required holders of HAZMAT license endorsement to undergo criminal background check for a fee of $75.	May 15, 2003
Sex Offender Fee	Required sex offenders to pay a DNA databank fee of $50, a sex offender registration fee of $50, and a sex offender registration change fee of $10.	May 15, 2003
Data Search Fee	Increased data search fee by $1.	July 1, 2003
Court Motion Fees	Imposed a $45 motion fee on Supreme/County and Appellate Courts, a stipulation of Discontinuance Fee of $35 and increased all Civil Court Fees by 25 percent.	July 14, 2003
Oil and Gas Depth Fees	Increased Oil and Gas Depth fees by 50 percent.	August 1, 2003
Penal Bonds	Increased fee on penal bonds from $1,000 to $2,500.	October 1, 2003
DWI or DWAI Surcharge	Imposed a $25 surcharge on DWI or DWAI convictions.	November 12, 2003
Parking Surcharges	Increased parking ticket surcharges to provide relief to the General Fund and Big 6 cities from $5 to $15.	November 12, 2003
Legislation Enacted in 2004		
Filing Fees	Increased Filing Fees for Alcoholic Beverage Control License applications.	April 1, 2004
Local Prosecution Program	Imposed various fees related to the Vehicle and Traffic Local Prosecution Program.	August 20, 2004
Driver Responsibility	Created the Driver Responsibility Program with fees of $100 and $250.	August 20, 2004
Federal Bed Contracts	Imposed State Correctional Facility Bed Rental Fee of $30,000 per year to the Federal Government.	April 1, 2004
Waste Tire Fee	Extended the current Waste Tire Fee of $2.50.	October 20, 2004
Stormwater Fees	Increased Stormwater Fees from $50 to $50-$350.	April 1, 2004
Snowmobile Fee	Increased Snowmobile Fee from $5 to $10.	August 20, 2004
Alcohol Beverage Control License Fees	Allowed liquor stores to open seven days per week.	August 20, 2004
Legislation Enacted in 2005		
Food Inspection Violations	Imposed a fine of $300 for the first food inspection violation.	January 1, 2005
Agent License Fee	Increased insurance agent license fee from $20 to $40.	April 1, 2005
Service of Process Fee	Increased service of process fee from $20 to $40.	April 1, 2005
Reinsurance License Fee	Increased reinsurance license fee from $100 to $500.	April 1, 2005
Alcohol Beverage Control License Fees	Allowed the direct shipment of wine to individual consumers in New York State.	August 11, 2005
Legislation Enacted in 2006		
Abandoned Property	Reduced the dormancy period on uncashed checks from five years to three years and added foreign securities as abandoned property.	April 1, 2006

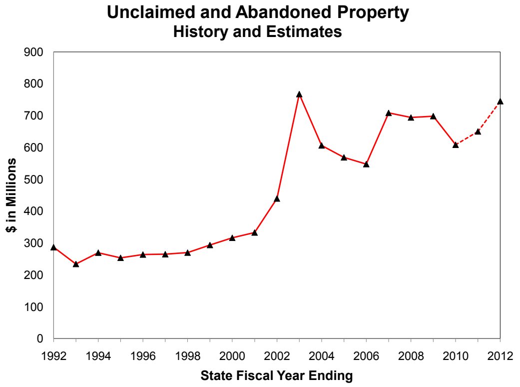
Subject	Description	Effective Date
Banking Fines and Penalties	Reorganized the fee and fine structure of the Banking Department, including eliminating all annual license fees, increasing and simplifying application fees to match the Department's work processes, and raising fine levels to encourage industry compliance.	April 1, 2006
Point Insurance Reduction	Allowed drivers to reduce points on their license via internet defensive driving courses for a fee of $8 for students and $7,500 for insurance providers.	April 16, 2006
Driver Responsibility Program	Dedicated the remaining funds from the Driver Responsibility Program to the Dedicated Highway and Bridge Trust Fund.	April 1, 2006
ATV Registration Fee	Repealed the $15 ATV train maintenance portion of the fee while maintaining the basic ATV registration fee of $10.	April 1, 2006
Legislation Enacted in 2007		
Alcohol Beverage Control License Fees	Allowed auctions of distilled spirits and licensing of auctioneers.	October 15, 2007
Legislation Enacted in 2008		
Vendor Service Fee	Created a vendor service fee to capture a portion of the benefit of centralized contracting and low prices leveraged through state aggregate purchases.	April 1, 2008
Legislation Enacted in 2009		
DMV Surcharge Caps	Removed the cap on surcharges for DMV fines and penalties.	April 1, 2009
License Termination Fees	Increased the driver's license termination fees.	April 1, 2009
Real Property Transfer Fee	Increased the real property transfer fee from $75 to $125 for residential properties, from $165 to $250 for commercial properties, and from $50 to $100 for co-ops.	April 1, 2009
18-A Utility Assessment	Increased the 18-A utility assessment.	April 1, 2009
Asbestos Project Notification Fees	Increased the notification fee for asbestos projects from $1,000 to $2,000.	April 1, 2009
Bottle Bill	Expanded the 5 cent minimum bottle deposit to water bottles, increased the handling fee to 3.5 cents, and allowed the state to collect 80 percent of unclaimed deposits.	October 31, 2009
Legislation Enacted in 2010		
Abandoned Property	Reduced dormancy periods on undelivered goods from five to three years, and on money orders from seven to five years.	August 3, 2010
Judiciary	Increased various civil court filing fees.	July 1, 2010

Components of Miscellaneous Receipts

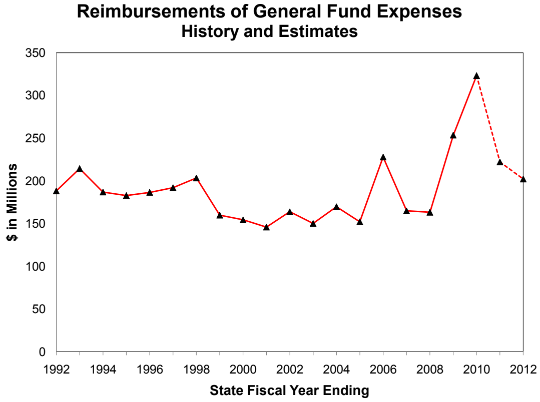
Historically, General Fund license and fee revenues have grown modestly and fairly consistently, aside from minimal peaks and troughs associated with law changes. In 2010-11, revenues are expected to decline from the prior year. In 2011-12, these revenues are projected to decrease as a result of and a proposed reclassification of motor vehicle fee revenues from this line.



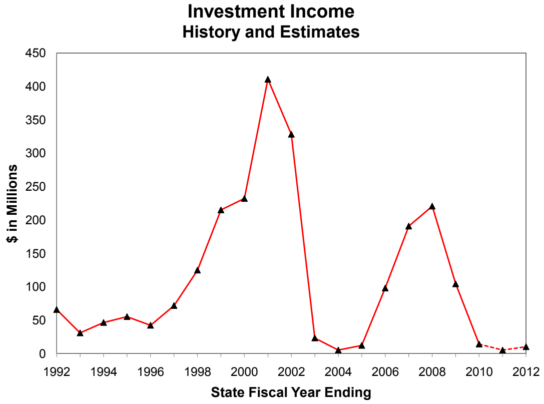
Historically, unclaimed and abandoned property revenue has remained relatively stable with minimal growth, aside from spikes in 2002-03 and 2003-04 resulting from a large amount of abandoned property released to the State of New York by the Office of the State Comptroller. This property was associated with the sale of stocks as well as a reduction in the dormancy period of uncashed checks. Unclaimed and abandoned property revenue is expected to increase in the forecast period as a result of proposed legislation to reduce several dormancy periods.



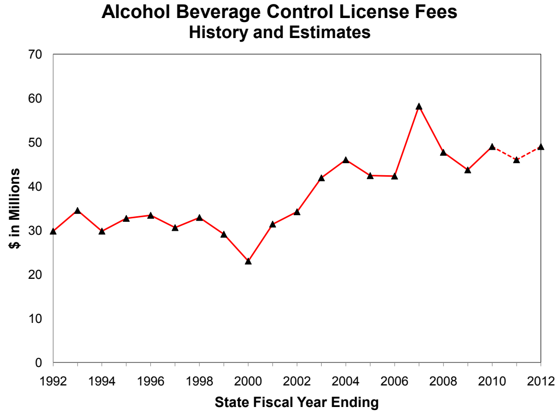
Historically, reimbursements of General Fund expenses and revenue advances have remained relatively constant, and are expected to remain so over the forecast period. In 2006, a portion of General Fund Federal Grants was reclassified to this category of General Fund Miscellaneous Receipts. For more information on this reclassification, please see the Federal Grants section of this volume.



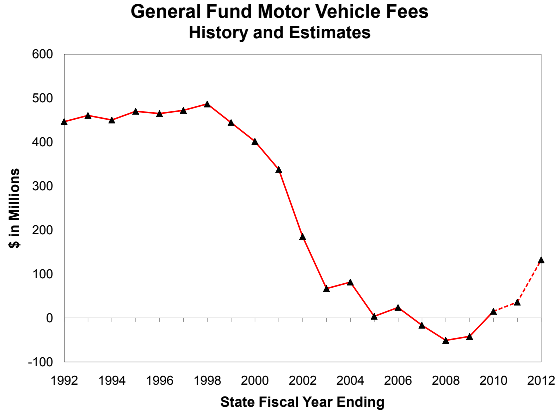
The trends in investment income are directly related to General Fund account balances and interest rates. For example, the large increase in 2000-01 followed by the severe drop in 2002-03 was a result of the impact of economic growth and subsequent recession on State finances; balances declined and interest rates declined sharply. The forecast for investment income is expected to remain very low as both General Fund account balances and interest rates are expected to be very low.



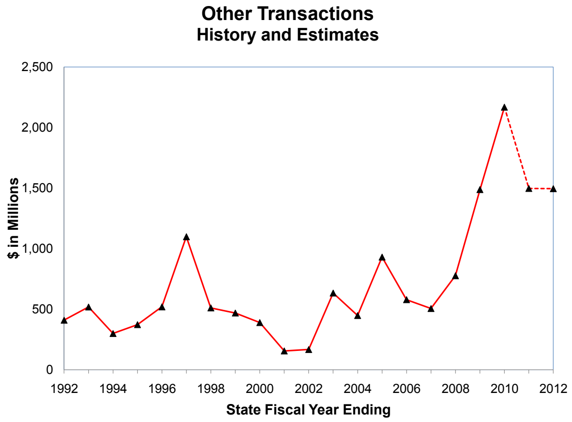
Historically, the number of alcoholic beverage control licenses has remained relatively constant. However, changes in license fees and length of licenses have caused variation in receipts. Effective April 1, 1998, all proceeds from alcoholic beverage control license fees are deposited in the General Fund. An accounting error uncovered in 2006-07 revealed that internet renewals hadn't been deposited properly. This caused a one-time payment of $13 million in 2006-07. In 2010-11 and 2011-12, these revenues are projected to remain fairly constant.



On April 1, 1993, 87 percent of motor vehicle registration fees were directed to the General Fund. Over the next decade, that percentage continued to sharply decline. Effective April 1, 2001, only 31 percent of registration fees were directed to the General Fund. In 2004-05, almost all of motor vehicle fee revenue was redirected from the General Fund to Dedicated Transportation Funds. Since 2006, of the amount of otherwise non-dedicated motor vehicle fees, $169.4 million is deposited in these Dedicated Funds. Surplus monies remain in the General Fund while the General Fund has to cover any shortfall. The 2011-12 Executive Budget proposes that all non-dedicated motor vehicle fee receipts (including fines and assessments) are deposited in these dedicated funds.



Other transactions, excluding tobacco securitization proceeds (which are not included in the accompanying graph), are an unrelated grouping of transactions and payments, which do not fall under the other miscellaneous receipts categories. Differences in collections year-to-year are the result of large, unusual payments to the State of New York including: bond issuance charges; a supplemental wireless surcharge; SONYMA, and timing-of-payments pursuant to section 18a of Public Service Law.



2009-10 RECEIPTS

In State fiscal year 2009-10, miscellaneous receipts totaled $3,888 million. Major revenue sources included: $906 million in public utility assessments related to §18a of Public Service Law; $710 million in fees, licenses, fines, royalties, and rents; $608 million in unclaimed and abandoned property; $323 million in reimbursements; $231 million in medical provider assessments; $223 million in payments from the New York Power Authority, a portion of which offsets revenue losses resulting from the "Power for Jobs" program; $155 million from Monroe County's Medicaid sales tax intercept payment; $134 million in sweeps related to Battery Park; $130 in atypical fines and civil recoveries; $129 million in additional bond issuance charges; $97 million from New York State Energy Research and Development Agency; $51 million from the supplemental wireless surcharge; $49 million from alcohol beverage control license fees; $45 million in Bottle Bill receipts; $41 million from the drivers responsibility program; and $26 million in payments from the Dormitory Authority of the State of New York. In addition, receipts included $15 million in motor vehicle fees; $14 million in interest earnings on short-term investments and bank accounts, an amount that is net of certain expenses incurred in providing banking services to various State agencies; and $9 million from the State of New York Mortgage Agency.

2010-11 ESTIMATES

Miscellaneous receipts are estimated to be $3,084 million for fiscal year 2010-11. Miscellaneous receipts are estimated to decrease $804 million from the prior year, primarily due to timing-of-payments and the loss of several one-time revenues. The estimate includes: $650 million in unclaimed and abandoned property; $628 million in fees, licenses, fines, royalties, and rents; $478 million in receipts from the 18-A utility assessment; $222 million in reimbursements; $202 million in medical provider assessments; $165 million from Monroe County's Medicaid sales tax intercept payments; $115 million in Bottle Bill proceeds; $107 million in additional bond issuance charges; $106 in atypical fines and civil recoveries; $84 million from the supplemental wireless surcharge; $78 million in fund sweeps from the Battery Park City Authority; $73 million in payments from the New York Power Authority, a portion of which offsets revenue losses resulting from the "Power for Jobs" program; $46 million in receipts from alcohol beverage control license fees; $41 million from the Driver's Responsibility program; $36 million in receipts from motor vehicle fees; $29 million from shifting Office of Real Property Services funds to the General Fund; $15 million from the privatization of the Empire State Development Corporation; $5 million in interest earnings on short-term investments and bank accounts (this amount is net of certain expenses incurred in providing banking services to various State agencies); and $4 million from the Housing Finance Agency.

2011-12 PROJECTIONS

Miscellaneous receipts are projected to be $3,088 million in fiscal year 2011-12, an increase of $5 million from 2010-11. The 2011-12 projection includes: $745 million in unclaimed and abandoned property; $537 million in receipts from the 18-A utility assessment; $455 million in fees, licenses, fines, royalties, and rents; $202 million in reimbursements; $194 million in medical provider assessments; $168 million from Monroe County's Medicaid sales tax intercept payments; $132 million in receipts from motor vehicle fees; $131 million in payments from the New York Power Authority, a portion of which offsets revenue losses resulting from the "Power for Jobs" program; $115 million in Bottle Bill proceeds; $107 million in additional bond issuance charges; $86 million from the supplemental wireless surcharge; $82 million from atypical fines; $49 million in receipts from alcohol beverage control license fees; $41 million from the Driver's Responsibility program; $30 million from shifting Office of Real Property Services funds to the General Fund; $10 million in interest earnings on short-term investments and bank accounts (this amount is net of certain expenses incurred in providing banking services to various State agencies); and $4 million from the Housing Finance Agency.

MISCELLANEOUS RECEIPTS
SPECIAL REVENUE FUNDS

MISCELLANEOUS RECEIPTS - SPECIAL REVENUE FUNDS
(millions of dollars)

	2009-10 Actual	2010-11 Estimated	Change	Percent Change	2011-12 Projected	Change	Percent Change
State Fund	14,654.0	14,907.4	253.4	-2.7	15,227.6	320.2	11.7
Federal Funds	158.4	184.5	26.1	-46.5	134.5	(50.0)	1.9
All Funds	14,812.4	15,091.9	279.5	-3.3	15,362.1	270.2	11.6

Note: Totals may differ due to rounding.

Miscellaneous receipts deposited to special revenue funds represent approximately 22 percent of total special revenue receipts, excluding transfers from other funds. These receipts include SUNY tuition and patient income, lottery receipts for education, health care surcharges, assessments, and conversion proceeds used to finance Health Care Reform Act (HCRA) programs, assessments on regulated industries, and a variety of fees and licenses, all of which are dedicated to support specific programs. The following table summarizes miscellaneous receipts for 2009-10 through projected 2011-12.

MISCELLANEOUS RECEIPTS - SPECIAL REVENUE FUNDS
(millions of dollars)

		Estimated	
	2009-10	2010-11	2011-12
HCRA	3,982	3,877	4,106
State University Income	3,229	3,368	3,609
Lottery	2,886	3,193	3,024
Medicaid	736	745	1,060
Industry Assessments	946	972	829
All Other	3,033	2,937	2,734
Total	14,812	15,092	15,362

HCRA FINANCING

HCRA receipts include recurring surcharges and assessments on hospital revenues, a "covered lives" assessment paid by insurance carriers, a portion of cigarette tax revenues, and other revenues dedicated by statute, as well as proceeds from insurance company conversions. These resources help finance the State's Medicaid program, Family Health Plus, workforce recruitment and retention, the Elderly Pharmaceutical Insurance Coverage Program (EPIC), Child Health Plus (CHP), Graduate Medical Education, AIDS programs, disproportionate share payments to hospitals and other various public health initiatives. The 2005-06 Enacted Budget created a new HCRA Resources Fund that includes all HCRA financed programs including those that were previously excluded from the State's Financial Plan.

MEDICAID

In addition to the General Fund, State Medicaid costs are financed by various Special Revenue Funds which include the HCRA Resources Fund (described above), the Provider Assessments Fund and the Indigent Care account. These resources are discussed in more detail below.

Provider Assessments

A new Provider Assessments Fund was established with the 2002-03 Enacted Budget and is currently supported by a partially-reimbursable 5.5 percent assessment, 9 percent on nursing home revenues and a 0.75 percent assessment on hospital and home care revenues.

STATE UNIVERSITY INCOME

The majority of special revenue receipts that support SUNY's operations are provided by tuition, patient revenue, and user fees. SUNY's three teaching hospitals at Brooklyn, Stony Brook and Syracuse, as well as the Long Island Veterans' Home, receive patient revenue from third-party payers including Medicare, Medicaid, insurance companies, and individuals. User fees, which include fees for food, parking, career placement and recreation, are generated from service users; includes students, faculty, staff, and the public. Other receipts primarily include interest earnings and fringe benefit recoveries from SUNY's other special revenue accounts.

The Executive Budget proposes legislation that would grant SUNY greater flexibility in managing its operations. The legislation, among other things, would give SUNY sole custody of tuition and other revenues, and spending supported these revenues would no longer be appropriated. However, to provide comparable annual spending totals, the Financial Plan continues to include this spending.

LOTTERY

Receipts from the sale of lottery tickets and proceeds from Video Lottery Terminals (VLT) at racetracks are used to support public education, as well as administrative costs associated with Lottery operations. The Lottery is discussed in detail in a separate section.

INDUSTRY ASSESSMENTS/ALL OTHER

All Other
Components of Miscellaneous Receipts
(millions of dollars)

	Estimated	
	2009-10	**2010-11**
Health	566	1,848
Environmental Conservation	226	213
Tribal State Compact	130	122
State Police	144	201
HESC	104	113
Education	123	124
CUNY	132	132
Motor Vehicles	78	81
All Other	1,530	103
Total Miscellaneous Receipts	**3,033**	**2,937**

The remaining revenues in this category include fees, licenses, and assessments collected by State agencies, primarily to support all or specific components of their operations. Receipts from assessments primarily reflect reimbursements from regulated industries, which fund the administrative costs of State agencies charged with their oversight. State agencies funded entirely from assessments include the Banking Department, the Insurance Department, the Public Service Commission, and the Workers' Compensation Board.

In addition to agency industry assessments, various fines and fees are collected to support agency operations and programs. The major sources of miscellaneous receipts by agency are detailed below.

- Health receipts include reimbursement for patient care provided at the Department's health care facilities, regulatory fees, audit recoveries, and registration, testing and certification fees for various public health services.

- Environmental Conservation fees include vehicle emission inspection fees and fees on regulated pollutants, sporting license fees, revenues from the sale of forest products, and recreational user fees.

- Tribal State Compact receipts consist of all revenues resulting from tribal state compacts executed pursuant to Executive Law.

- State Police miscellaneous revenue sources include seized assets, a portion of the State's monthly surcharge on cellular telephone bills, fees for accident reports and an annual fee on insurance policies of all registered motor vehicles.

- HESC receipts include administrative fees paid by the Federal government and collections on defaulted loans.

- Education miscellaneous revenue sources include professional licensing fees and disciplinary fines, teacher certification fees and filing fees on certain documents filed in county clerks' offices.

- CUNY miscellaneous receipts include income derived from excess tuition revenue and collections from self-supporting activities such as application fees, continuing education, and dormitory fees.

- Motor Vehicles fees include, assessments against insurers, surcharges on traffic violations and suspended licenses and vehicle registration fees.

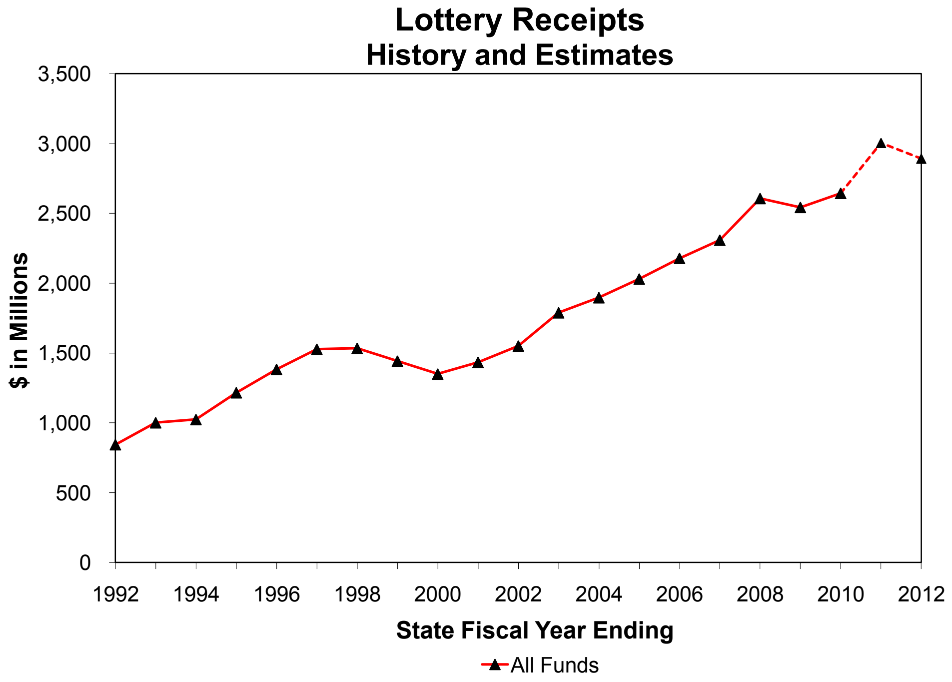
- Interest on Lawyer Account miscellaneous revenue comes from the transfer of interest from certain escrow accounts held by attorneys for their clients.

LOTTERY

MISCELLANEOUS RECEIPTS - LOTTERY
(millions of dollars)

	2009-10 Actual	2010-11 Estimated	Change	Percent Change	2011-12 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	2,644.7	3,005.0	360.3	13.6	2,892.0	(113.0)	(3.8)
All Funds	2,644.7	3,005.0	360.3	13.6	2,892.0	(113.0)	(3.8)

Note: Totals may differ due to rounding.



LOTTERY RECEIPTS BY COMPONENT
(millions of dollars)

	Instant Games	Numbers	Win 4	Lotto	Pick 10	Take 5	Quick Draw	Mega Millions	Power Ball	Sweet Million	Other*	VLTs	Admin. Surplus**	Total Receipts
2001-02	377.1	256.8	182.4	254.8	13.2	152.2	121.9				0.0		193.2	1,551.5
2002-03	465.7	267.3	205.3	175.7	11.9	133.5	118.6	129.0			0.0		281.9	1,789.0
2003-04	529.0	271.9	213.1	163.4	12.1	128.9	127.1	166.6			0.0	12.6	272.3	1,897.1
2004-05	550.0	278.5	220.0	137.5	11.8	121.3	118.0	156.3			0.0	141.2	296.0	2,030.7
2005-06	594.9	288.9	231.4	113.7	11.4	116.9	114.7	194.4			9.5	161.7	341.8	2,179.4
2006-07	664.2	298.8	245.6	95.9	11.1	114.1	110.8	160.6			11.9	269.7	326.5	2,309.2
2007-08	665.4	298.7	250.6	94.6	11.2	111.5	110.7	167.3			8.0	490.8	398.9	2,607.7
2008-09	690.8	296.8	257.7	79.5	11.2	114.7	105.7	164.4			3.8	434.9	384.5	2,544.0
2009-10	665.9	300.8	272.7	81.0	11.5	109.4	105.2	198.1	12.1	15.9	0.0	492.5	379.6	2,644.7
Estimated														
2010-11	639.0	296.0	269.0	61.0	11.0	96.0	104.0	145.0	70.0	19.0	0.0	920.0	375.0	3,005.0
2011-12														
Current Law	648.0	300.0	276.0	58.0	11.0	91.0	105.0	140.0	82.0	17.0	0.0	642.0	367.0	2,737.0
Proposed Law and Administrative Actions	671.0	311.0	286.0	60.0	11.0	95.0	129.0	154.0	86.0	18.0	0.0	682.0	389.0	2,892.0

** Other includes: Millennium Millions (1999-2000 and 2000-01), King Kong (2005-06) and Raffle games (2006-07, 2007-08, 2008-09 and 2009-10).*

*** Any unused portion of Lottery's administrative allowance and other miscellaneous income used for aid to education.*

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- authorize a program at Video Lottery Gaming facilities that would provide a free-play allowance of up to 10 percent of net machine income at each facility;
- eliminate restrictions on the Quick Draw game related to the size of establishments and food sales;
- authorize the Lottery to introduce five 75 percent prize pay-out instant games each fiscal year;
- authorize the Lottery to participate in multi-jurisdictional, progressive jackpot video lottery games; and
- authorize a prize-payout in excess of 50 percent on multi-jurisdictional lottery games when two-thirds of participating lottery jurisdictions have agreed to a prize pay-out in excess of 50 percent.

Administrative Actions taken along with this Budget will:

- expand the sales force to reduce the ratio of retailers to marketing reps;
- expand the retailer base through recruitment of corporate chain stores;
- implement a "Megaplier" add-on feature to the Mega Millions game; and
- expand prepaid subscription sales to other jackpot games.

DESCRIPTION

In 1966, New York State voters approved a referendum authorizing a State Lottery, and ticket sales commenced under the auspices of the Lottery Commission. Under the original lottery legislation, a passive draw game was offered with 12 drawings a year, 30 percent of gross receipts earmarked to prizes, 55 percent to education, and the remaining 15 percent representing an upper limit on administrative expenses. Since its inception, numerous games have been introduced with varying prize payout schedules to make them attractive to the consumer. In 1973, the New York State Racing and Wagering Board took over operation of the Lottery from the Lottery Commission, but Lottery operations were subsequently shut down in 1975. The New York State Division of the Lottery was established in 1976, and assumed the operation of the State's Lottery.

The Lottery Division, as an independent agency within the Department of Taxation and Finance, manages the operation and sales of the State's Lottery games. The Lottery Division is authorized to operate five types of games:

- instant games, sold as scratch-off tickets in which most prizes are won immediately (approximately 45 games are currently being offered for sale with prices ranging from $1 to $30);

- lotto games, which are games offering large top prizes, with drawings conducted 15 times weekly: seven 5-of-39 draws (Take-5), two 6-of-59 draws (Lotto), two 6-of-40 draws (Sweet Million), and four multi-jurisdictional drawings (Mega Millions and Powerball). For the Lotto, Mega Millions and Powerball games, top prizes are pari-mutuel and the value of any top prize not won is added to the top prize in the subsequent drawing;

- daily numbers games, which are fixed payout games with twice daily drawings where players select either a three-digit number (Daily Numbers), or a four-digit number (Win 4). Instant Win and Lucky Sum are offered as add-on games to Daily Numbers and Win 4;

- keno-like games, which offer prizes that are of a fixed amount with drawings conducted either daily (Pick 10) or every few minutes (Quick Draw). The Lottery Division currently pays base top prizes of $500,000 in Pick 10 and $100,000 in Quick Draw; and

- video lottery games, which are lottery games played on Video Lottery Terminals (VLTs), which are authorized only at selected thoroughbred and harness tracks.

The Division of the Lottery periodically offers short-run promotional lottery games. In 1999-2000 and 2000-01, the Lottery Division operated the Millennium Millions game. In 2005-06, the Lottery offered a King Kong promotional game in conjunction with the release of the King Kong movie. The Raffle to Riches game was held in 2006-07 and again in 2007-08. The Lottery conducted the Turkey Raffle in November of 2008.

The table below shows the statutory distribution of lottery sales among prizes, revenue for education and the allowance for expenses related to administration of the games. Any unused administration revenue is earmarked for education.

DISTRIBUTION OF LOTTERY SALES
(Percent)

	Prizes	Education	Admin. Allowance
Lotto	40	45	15
Sweet Million	40	45	15
Mega Millions	50	35	15
PowerBall	50	35	15
Numbers	50	35	15
Win 4	50	35	15
Take 5	50	35	15
Pick 10	50	35	15
Quick Draw	60	25	15
Instant	65	20	15
Three Instant Games at 75%	75	10	15

FREQUENCY OF LOTTERY DRAWINGS

Game	Date of Inception	Frequency of Drawings
Lotto	1967	Saturday and Wednesday at 11:21 PM
Numbers	1980	Twice Daily
Win 4	1981	Twice Daily
Pick 10	1988	Once Daily
Take 5	1992	Once Daily
Quick Draw	1995	Every four minutes
Mega Millions	2002	Tuesday and Friday at 11:00 PM
Sweet Million	2009	Monday and Thursday at 9:30 PM
PowerBall	2010	Saturday and Wednesday at 10:59 PM

The following table shows the current distributions of VLT receipts (after prizes) among revenue for education, administration, operator commission, and funds available for promotions and capital. Distributions to purses and breeders funds are made from the operator’s commissions, and are not separately shown.

DISTRIBUTION OF VLT RECEIPTS AFTER PRIZES* IN 2011-12
(Percent)

Tracks with 1,100 or more machines (*Saratoga, Finger Lakes*)

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $62.5 million	45	10	31	10	4
More than $62.5 million up to $100 Million	49	10	31	10	0
Over $100 million	51	10	31	8	0

Tracks with less than 1,100 machines (*Batavia*)

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $50 million	41	10	35	10	4
More than $50 million to $62.5 million	48	10	28	10	4
More than $62.5 million up to $100 Million	52	10	28	10	0
More than $100 million up to $150 Million	54	10	28	8	0
Over $150 million	57	10	25	8	0

Tracks with a population less than 1 million within 40 mile radius (*Tioga*)

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $50 million	37	10	39	10	4
More than $50 million to $62.5 million	48	10	28	10	4
More than $62.5 million up to $100 Million	52	10	28	10	0
More than $100 million up to $150 Million	54	10	28	8	0
Over $150 million	57	10	25	8	0

Tracks within 15 miles of a Class III Native American Casino (*Vernon, Buffalo Fairgrounds*)

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $62.5 million	35	10	41	10	4
More than $62.5 million to $100 million	39	10	41	10	0
Over $100 million	41	10	41	8	0

Tracks Located in Sullivan County within 60 miles of Gaming Facility in a Contiguous State (*Monticello*)

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $100 million	39	10	41	10	0
Over $100 million	41	10	41	8	0

Tracks with 1,100 or more machines located in Westchester County (*Yonkers*)

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $62.5 million	48	10	30	8	4
Over $62.5 million	52	10	30	8	0

Aqueduct Racetrack

	Education	Lottery Administration	Commission	Marketing	Racing Support Payment
All Net Machine Income	44	10	31	8	7

*Not less than 90 percent of sales must be used for prizes.
Net Machine Income is gross receipts minus prize payments. Free-play allowance amounts are excluded from the calculation of NMI.

LOTTERY

Administration

The Lottery Division develops new lottery games, markets and advertises, distributes games, provides terminals and computer programming, regulatory oversight and otherwise performs all functions necessary to operate an effective State lottery. The Comptroller, pursuant to an appropriation, distributes all net receipts from the Lottery directly to school districts. This aid includes special allowances for textbooks for all school children and additional amounts for pupils in approved State-supported schools for the deaf and the blind.

The Lottery Division's game vendor notifies sales agents of the State's share of sales proceeds by the Monday following the liability week. The agent has until Tuesday to deposit sufficient funds into a specified bank account, at which time the operations vendor sweeps the funds and transfers them to the Lottery Division by Wednesday morning. For VLTs, the Division sweeps the accounts daily. All gaming funds are transferred to the State on Wednesday.

Significant Legislation

The significant lottery legislation enacted since 1967 is summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1967		
Authorization	Authorized a State Lottery to be operated by the Lottery Commission. The lottery may not have more than 12 draws in a fiscal year, and may not have a prize payout of more than 30 percent, with a minimum of 55 percent of revenue for education.	April 18, 1967
Legislation Enacted in 1968		
Number of Drawings	Increased the number of allowable drawings to not more than one regular drawing per week, and authorized special or bonus drawings.	March 12, 1968
Legislation Enacted in 1970		
Number of Drawings	Eliminated the restriction on the number of drawings allowed.	April 22, 1970
Prize Payout	Increased the prize payout to not more than 40 percent and lowered the minimum revenue for education to 45 percent.	April 22, 1970
Legislation Enacted in 1973		
Operation	Transferred the operation of the State Lottery to the New York State Racing and Wagering Board.	July 1, 1973
Legislation Enacted in 1976		
Operation	Established the New York State Division of the Lottery, which replaced the Racing and Wagering Board as the operator of the State Lottery.	March 31, 1976
Legislation Enacted in 1980		
Prize Payout	Authorized prize payouts of up to 50 percent for daily numbers games and a minimum of 35 percent of revenue to education.	April 1, 1980
Legislation Enacted in 1988		
Prize Payout	Authorized a 50 percent prize payout for Instant games, "Daily Numbers Games" and "Win 4" with a minimum of 35 percent of revenue to education. Authorizes a 40 percent prize payout for "Win 10" and other State-operated lottery games.	July 19, 1998
Legislation Enacted in 1991		
Prize Payout	Increased the prize payout for instant games from 50 percent to 55 percent and lowered the minimum amount of revenue for education to 30 percent. Increased the prize payout for "Pick 10" from 40 percent to 50 percent and lowered the minimum amount of revenue for education to 35 percent.	June 12, 1991

Subject	Description	Effective Date
Legislation Enacted in 1994		
Limit on Draws per Day	Required that the drawings for Pick 10, Take 5, and Lotto games are to be offered no more than once daily.	April 1, 1994
Unclaimed Prize Money	Limited the use of unclaimed prize money for the promotional supplementation of games other than Lotto by the Division to 16 weeks per year.	April 1, 1994
Annual Plan	Required the Division to submit an annual report to the Legislature, the Governor, and the Division of the Budget each year.	April 1, 1994
Legislation Enacted in 1995		
Quick Draw	Authorized Quick Draw.	April 1, 1995
	Authorized a 60 percent prize payout.	
	Limited drawings for the game to no more than 13 hours each day, of which only eight hours can be consecutive.	
	Required that if there is no license for the sale of alcohol for on premises consumption, then the premises have to be a minimum of 2,500 square feet.	
	Required that if there is a license to sell alcohol for on premises consumption, then at least 25 percent of the gross sales must be from sales of food.	
Legislation Enacted in 1999		
Instant Games	Authorized a 65 percent prize payout.	April 1, 1999
	Reduced the percent dedicated to education from 30 percent to 20 percent.	
Legislation Enacted in 2001		
Multi-jurisdictional	Allowed the Lottery Division to enter into agreements to conduct multi jurisdictional lotto games with a 50 percent prize payout (Mega Millions).	October 29, 2001
Video Lottery Gaming	Allowed the Lottery Division to license video lottery gaming at selected New York State racetracks.	October 29, 2001
Legislation Enacted in 2002		
Instant Games	Authorized up to three 75 percent prize payout Instant ticket games to be offered during the fiscal year.	January 28, 2002
Legislation Enacted in 2003		
Quick Draw	Extended the operation of Quick Draw until May 31, 2004.	January 28, 2002
Video Lottery Gaming	Provided that of the total amount wagered on video lottery terminals, not less than 90 percent is paid out for prizes. Of the balance, the Lottery Division retains 10 percent for administration, 29 percent is paid to the racetracks as a commission, and 61 percent is dedicated to education. Of the commission paid to the tracks, the amount allocated to purses in years one through three is 25.9 percent; in years four and five, 26.7 percent; and in subsequent years, 34.5 percent. The Breeders' funds receive 4.3 percent of the commission paid to racetracks in the first through fifth years and 5.2 percent in the following years. The racetracks are allowed to enter into agreements, not to exceed five years, with the horsemen to reduce the percentage of the vendor fee allocated to purses. The program expires ten years after the start of the program.	May 2, 2003
Legislation Enacted in 2004		
Quick Draw	Extended the operation of Quick Draw until May 31, 2005.	August 20, 2004
Legislation Enacted in 2005		
Quick Draw	Extended the operation of Quick Draw until May 31, 2006.	April 12, 2005
Video Lottery Gaming	Provided a graduated vendor's fee that allows participating tracks to receive 32 percent of the first $50 million of revenue after prizes, 29 percent of the next $100 million, and 26 percent of net revenue over $150 million. In addition, a marketing allowance of 8 percent of the first $100 million in net revenue and 5 percent thereafter was established. The marketing allowance is limited to 4 percent of net revenue for tracks located in Westchester or Queens Counties. The expiration of the program is extended until December 31, 2017.	April 12, 2005
Legislation Enacted in 2006		

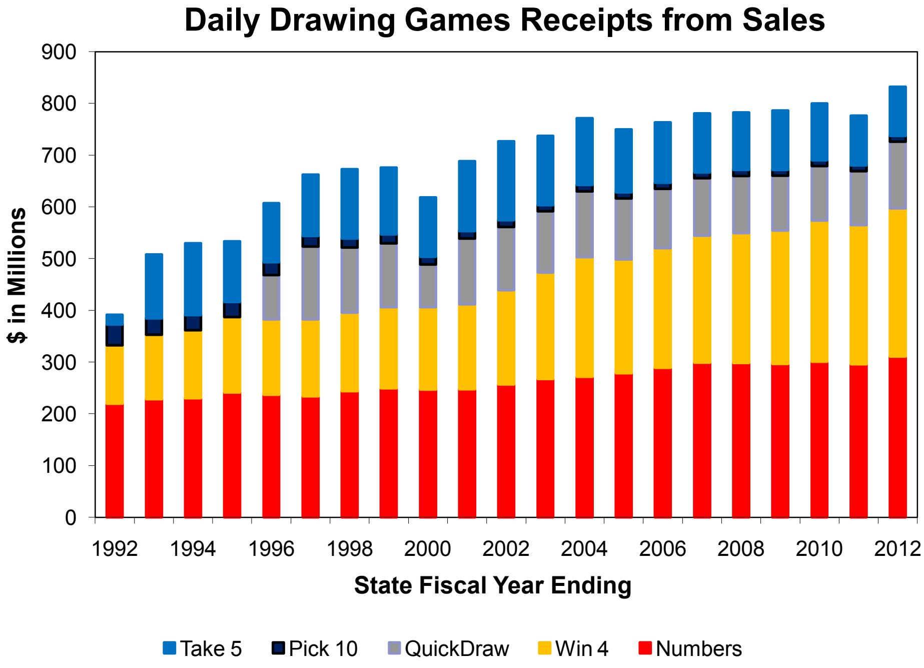
Subject	Description	Effective Date
Quick Draw	Extended the operation of Quick Draw until May 31, 2007.	April 28, 2006
Legislation Enacted in 2007		
Quick Draw	Extended the operation of Quick Draw until May 31, 2008.	May 31, 2007
Legislation Enacted in 2008		
Quick Draw	Extended the operation of Quick Draw until May 31, 2010.	April 23, 2008
Video Lottery Gaming	Revised the distribution of video lottery receipts to provide different commissions to tracks based on factors including: size of the facility; population surrounding the facility; and proximity to Native American and out-of-state casinos. In addition, tracks were provided a capital allowance for capital expenditures to enhance their facilities.	April 1, 2008
Video Lottery Gaming	Provided a commission rate of 75 percent to a facility located in Sullivan County that has made a capital investment of at least one billion dollars and has no fewer than 2,000 full-time permanent employees. However, the qualifying facility is required to provide a minimum contribution to education of $38 million plus an amount equal to the Lottery's administrative costs, not to exceed 7 percent of net machine income.	July 7, 2008
Legislation Enacted in 2009		
Multi-jurisdictional	Authorized the Lottery to enter more than one multi-jurisdictional lottery association.	April 7, 2009
Video Lottery Gaming	Reduced capital investment and employment requirements for a facility located in Sullivan County to qualify for a 75 percent commission rate.	August 11, 2009
Legislation Enacted in 2010		
Quick Draw	Made the Lottery's authorization to operate the Quick Draw lottery game permanent and removed the restrictions on the number of hours Quick Draw can be operated.	July 1, 2010
Video Lottery Gaming	Removed the sunset on the Video Lottery Gaming Program. Increased the hours that VLTs may be operated to 20 hours from 16 hours, but no later than 4 am. Reduced the vendor commission by one percent of net machine income.	August 11, 2010

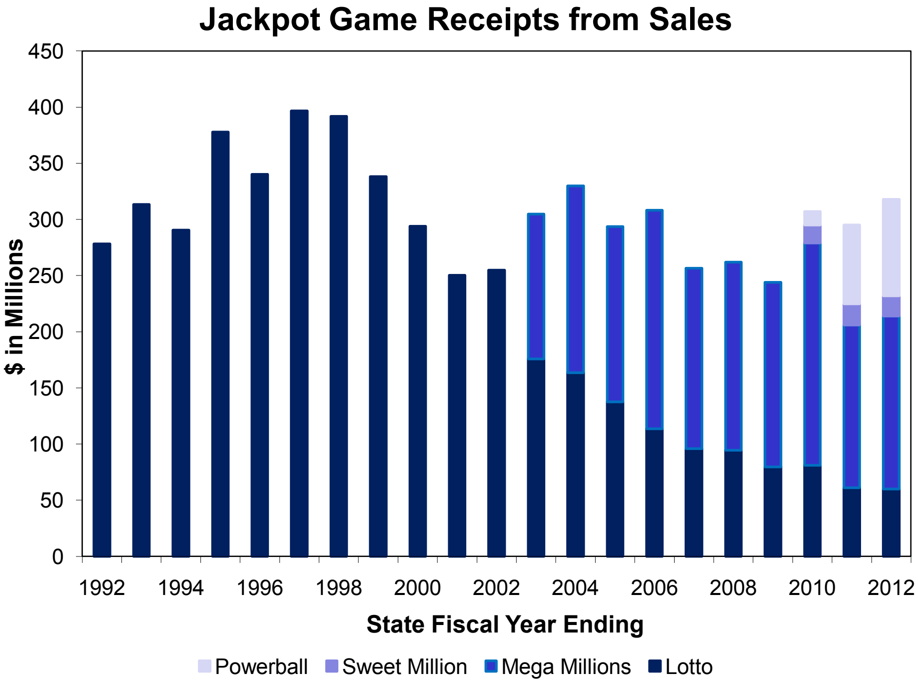
Lottery Demand

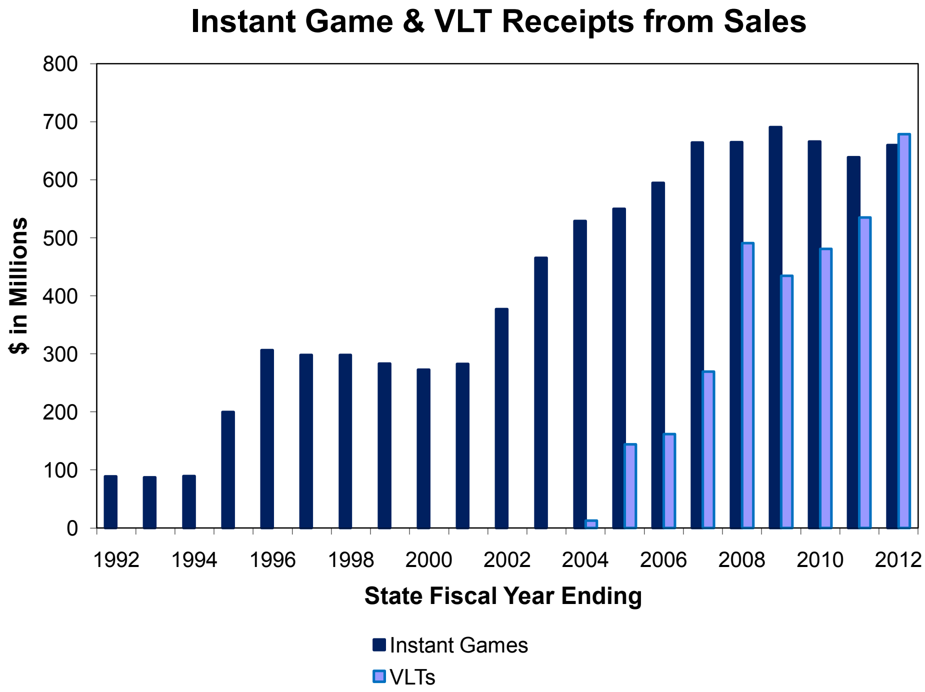
Factors that affect the demand for Lottery games include: the size of jackpots, the price of lottery tickets; the amount spent on advertising and marketing; the prize payout percentage; the development of new games that generate increased sales; the potential customers attitude towards Lottery games; and competition from other gambling venues.

For a more detailed discussion of the methods and models used to develop estimates and projections, please see the *Economic, Revenue and Spending Methodologies* at www.budget.state.ny.us.

The following graphs show the receipts history of the various games since 1992.







RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2010-11 Estimates

Receipts for education from sales of Lottery games for 2010-11 are estimated to be just over $3 billion, an increase of $360.3 million, or 13.6 percent above last year. Unspent administrative allowances and miscellaneous income account for $375 million of receipts. Sales of all traditional games are negatively impacted from the loss of a 53rd week of deposits that occurred in 2009-10. Net receipts for education also include $920 million from the operation of video lottery terminals, including $380 million in receipts for the right to operate VLTs at Aqueduct. A game-by-game profile follows.

Instant Games and Video Lottery Gaming

Year-to-date, sales of 65 percent prize-payout instant games have declined, while sales of 75 percent prize payout instant games grew slightly. Revenue to support education from the sale of Instant Games is projected to decline by $26.9 million, or 4 percent as a result of this sales decline and the loss of the additional week of deposits.

VLT machines are currently in operation at Saratoga, Finger Lakes, Monticello, Buffalo, Batavia, Tioga, Vernon, and Yonkers racetracks. Receipts from gaming operations at VLT facilities are estimated at $540 million for 2010-11, up $47.5 million from the prior year. This increase reflects growth in gaming activities at most facilities combined with the impact of legislation that reduced the commission paid to vendors by one percent of net machine income and allowed increased hours of operation. The State also received a one-time $380 million payment in 2010-11 from the selected operator of the video lottery facility at the Aqueduct Racetrack.

Jackpot Games

In October 2009, the Mega Millions consortium and Multi-State Lottery Association (MUSL) reached an agreement to cross-sell Mega Millions and Powerball. The New York Lottery began offering Powerball with the February 2, 2010 drawing. Sales from Powerball during the first full year are projected to generate $70 million for education in 2010-11.

Mega Millions receipts from sales in 2010-11 are estimated to be $145 million, a decrease of $53.1 million from 2009-10. While sales were helped by the recent jackpot roll-up to $355 million, the overall decrease reflects a drop in large jackpot roll-ups during the year. To date, there have been four roll-ups in excess of $100 million compared to seven during 2009-10, including a $333 million jackpot in August 2009. Although combined sales of multi-jurisdictional games have increased as a result of the introduction of Powerball, the impact from the competing jackpot now offered through the Powerball game contributed to the decline in Mega Millions sales.

Lotto receipts from sales are expected to decline by $20 million in 2010-11 to $61 million. The trend decline in Lotto sales was accelerated by the introduction of Powerball in New York, which draws on the same nights as Lotto.

The first full year of sales of Sweet Million is projected to generate $19 million in revenue to support education. Lottery launched Sweet Million, a new version of the Lotto game that offers a fixed top prize of $1 million, in September 2009.

Daily Drawing Games

Receipts from Numbers and Win 4 are estimated to have small declines from 2009-10 levels, falling 1.6 percent and 1.4 percent respectively. These declines are largely due to the loss of the extra week of deposits that occurred in 2009-10.

Take 5 sales are estimated to decline by 12.2 percent from 2009-10 levels as Take 5 faced increased competition from Sweet Million and Powerball. Quick Draw is estimated to generate $104 million in receipts from sales, as trend declines are offset by the impact of legislation enacted in 2010 that eliminated the restriction on the number of hours that Quick Draw could be operated.

2011-12 Projections

Under current law, receipts for education from the Lottery in 2011-12 are projected to be $2.74 billion, a decrease of $268 million, or 8.9 percent below 2010-11. Adjusting for the one-time $380 million payment received in 2010-11 for the right to operate VLTs at Aqueduct, receipts for education are projected to increase by $112 million, or 4.3 percent.

The Lottery will be taking administrative actions along with this Budget that are projected to increase revenue to support education by $101 million. Administrative actions include initiatives to increase the efficiency of the sales force and to increase the number of retail vendors. These actions will increase sales of most traditional games, and when combined with proposed law changes, are estimated to result in receipts for education from Lottery games of $2.89 billion, a decrease from the prior fiscal year of $113 million, or 3.8 percent. After adjusting for last year's one-time Aqueduct payment, proposed law receipts would increase by $267 million, or 10.2 percent.

Administrative surplus income is projected to total $389 million in 2011-12.

Instant Games and Video Lottery Gaming

Instant games receipts from sales under current law are projected to increase by 1.4 percent, or $9 million, to $648 million. A proposal that would increase the number of games that can be offered with a 75 percent prize payout, combined with administrative initiatives to increase the efficiency of the sales force and increase the number of retail vendors, are estimated to result in proposed law receipts from the sale of instant games of $671 million, an increase of 5.0 percent, or $32 million.

Under current law, the video lottery program is projected to generate $642 million for education in 2011-12, a decrease of $278 million. This decrease represents the loss of the one-time $380 million payment for the right to operate a video lottery facility at Aqueduct. Adjusting for the Aqueduct payment, video lottery current law receipts are projected to increase by $102 million. Growth in receipts reflect the beginning of gaming operations at Aqueduct during 2011-12, combined with the full year impact of 2010 legislation reducing the vendors' commission and increasing hours of operation. Legislation proposed with the Executive Budget that would authorize a free-play allowance program and allow for multi-state progressive video lottery games are projected to generate an additional $40 million in revenue to support education.

Jackpot Games

Receipts from Mega Millions sales are projected to increase by $9 million, to $154 million. The number of large jackpot roll-ups in 2011-12 is expected to increase from 2010-11, offsetting the loss of sales from the $355 million jackpot experienced in 2010-11. The addition of the Megaplier feature to the game is projected to contribute $8 million in receipts from sales.

Receipts from Powerball are projected to increase by $16 million (to $86 million) as consumer awareness of the availability of the game in New York continues to improve.

The decline in Lotto is projected to stabilize in 2011-12 to levels more in line with historical trends. Receipts from Lotto are projected to be $60 million, 1.6 percent lower than the 2010-11 level. Receipts from the sale of Sweet Million are projected to decline by $1 million from 2010-11 levels as sales stabilize around a consistent player base.

Daily Drawing Games

Sales of Daily Numbers and Win 4 are projected to post strong growth due to sale initiatives to increase the number of vendors and to increase average vendor sales.

Revenue from sales attributable to the Numbers game is projected to increase by 5.1 percent in 2011-12, to $311 million. Receipts from Win 4 sales are projected to grow by $17 million to $286 million, an increase of 6.3 percent. Receipts from Take 5 sales are projected to continue trend declines, falling by $1 million in 2011-12 to $95 million.

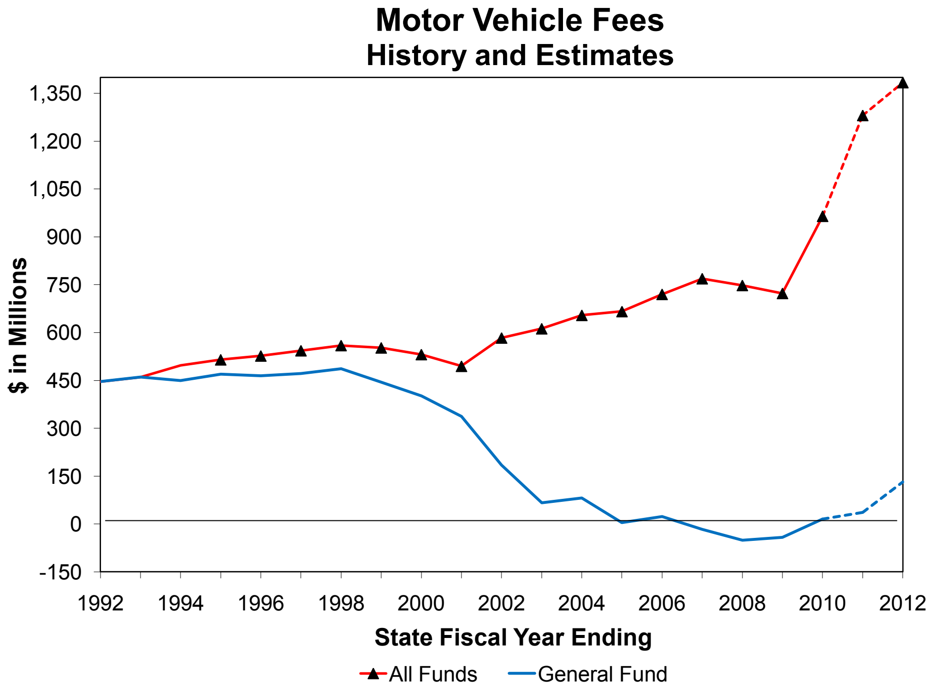
Under current law, receipts from sales of the Quick Draw game are projected to increase by $1 million, as the impact of a full year of sales without restrictions on the hours of operation offset the base trend decline in the game. Under proposed law, the removal of restrictions on where Quick Draw can be operated would result in an additional $9 million in receipts from sales, while increased sales force and recruitment efforts are projected to increase receipts from the sale of Quick Draw by $15 million.

MOTOR VEHICLE FEES

MOTOR VEHICLE FEES
(millions of dollars)

	2009-10 Actual	2010-11 Estimated	Change	Percent Change	2011-12 Projected	Change	Percent Change
General Fund	15.2	36.0	20.8	136.8	132.0	96.0	266.7
Other Funds	949.7	1,245.2	295.5	31.1	1,251.2	6.0	0.5
All Funds	964.9	1,281.2	316.3	32.8	1,383.2	102.0	8.0

Note: Totals may differ due to rounding.



MOTOR VEHICLE FEES BY FUND
(millions of dollars)

	Gross General Fund	Refunds	General Fund	Gross Special Revenue Funds[1]	Refunds	Special Revenue Funds[1]	Gross Capital Projects Funds[2]	Refunds	Capital Projects Funds[2]	All Funds Receipts[3]
2001-02	208	23	185	28	0	28	371	0	371	584
2002-03	92	25	67	76	0	76	470	0	470	613
2003-04	100	18	82	105	0	105	468	0	468	655
2004-05	33	29	4	138	0	138	525	0	525	666
2005-06	24	0	24	206	5	201	571	15	495	720
2006-07	(17)	0	(17)	234	5	229	572	15	557	770
2007-08	(51)	0	(51)	235	5	230	584	15	569	748
2008-09	(42)	0	(42)	223	5	218	562	15	547	723
2009-10	15	0	15	327	5	322	643	15	628	965
Estimated										
2010-11	36	0	36	426	5	421	839	15	824	1,281
2011-12										
Current Law	54	0	54	430	5	424	842	15	827	1,305
Proposed Law	132	0	132	430	5	424	842	15	827	1,383

[1] Dedicated Mass Transportation Trust Fund and the MTA Aid Trust Account.

[2] Dedicated Highway and Bridge Trust Fund.

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- clarify that all non-dedicated motor vehicle receipts includes fines and assessments for the purpose of distributing receipts into the Dedicated Funds Pool.

DESCRIPTION

Fee Base

Motor vehicle fees are imposed by the Vehicle and Traffic Law. In general, motor vehicles, motorcycles, trailers, semi-trailers, buses, and other types of vehicles operating in New York are required to be registered with the Department of Motor Vehicles. In 2009, almost 10.7 million vehicles were registered in New York State, including 841,233 commercial vehicles. Vehicles owned by nonresidents and registered with a political jurisdiction outside the State are not usually required to be registered in New York. New York State Vehicle and Traffic Law require drivers to be licensed by the Department of Motor Vehicles. The current license renewal period is eight years. In 2009, New York State had over 11 million licensed drivers. Numerous other fees, related to the processes of registration or licensing, are also components of motor vehicle fees. Examples are: fees for inspection and emission stickers; repair shop certificates; and insurance civil penalties.

Fee Schedules

Most vehicle registration fees in New York are based on weight. Two important exceptions are buses, which are charged according to seating capacity, and semi-trailers, which are charged a flat fee. Registration fees for vehicles weighing less than 18,000 pounds are imposed biennially. The main registration fees are as follows:

MAIN REGISTRATION FEES		
Type of Vehicle	**Weight of Vehicle**	**Annual Fee* (dollars)**
Passenger vehicle	Each 100 lbs. or major fraction thereof up to 3,500 lbs.	0.81
	Plus: for each 100 lbs or major fraction thereof above 3,500 lbs.	1.21
Passenger vehicle – minimum fee		12.94
Passenger vehicle – maximum fee		70.08
Passenger vehicle propelled by electricity		16.18
Auto truck and light delivery vehicle	Each 500 lbs. maximum gross weight or fraction thereof	3.60
Tractors (registered separately from semi-trailers)	Each 100 lbs. maximum gross weight or fraction thereof	1.51
Trailers	Each 500 lbs. maximum gross weight or fraction thereof	5.39
Semi-trailers – pre-1989 model year		28.75 per year
Semi-trailers – model year 1989 or later		28.75 per year or 86.25 for a period of 5.5 to 6.5 years
Bus – seating capacity 15 to 20 passengers		74.75

*This does not include the $25 supplemental fee imposed on registrations in the Metropolitan Commuter Transportation District (MCTD).

The main licensing fees are listed below:

MAIN DRIVER LICENSING FEES	
Type of License	**Fee* (dollars)**
Photo Fee	12.50
Original/Renewal	
• A, B, CDL, or C (Commercial)	9.50 – for each six months
• Non CDL/C or E	6.25 – for each six months
• D (Passenger)	3.25 – for each six months
• M (Motorcycle)	3.75 – for each six months

*This does not include the $1 supplemental fee per six months imposed on licenses in the MCTD.

Administration

Registration and licensing occur in person or by mail at the central and district offices of the Department of Motor Vehicles, and county clerks' offices in most counties. Many transactions can also be completed via the Internet. The county clerks were historically compensated with a fixed portion of each fee, but, since April 1, 1999, they have received 12.7 percent of gross receipts. This totaled $41.5 million in 2009-10.

COUNTY CLERKS' RETENTION SCHEDULE	
Type of Retention	**Period**
Fixed portion of each fee.	Until December 31, 1996
8.1 percent of gross receipts.	From January 1, 1997
9.3 percent of gross receipts.	From July 1, 1998
12.7 percent of gross receipts.	From April 1, 1999

Fee Exemptions

Certain vehicles registered in New York are exempt from registration fees. The exemptions include: vehicles owned by the State or municipalities; passenger vehicles owned by consular offices; provided reciprocity is granted; and vehicles owned and used for the transportation of animals by societies for the prevention of cruelty to animals. The revenue loss from these exemptions is minimal.

Significant Legislation

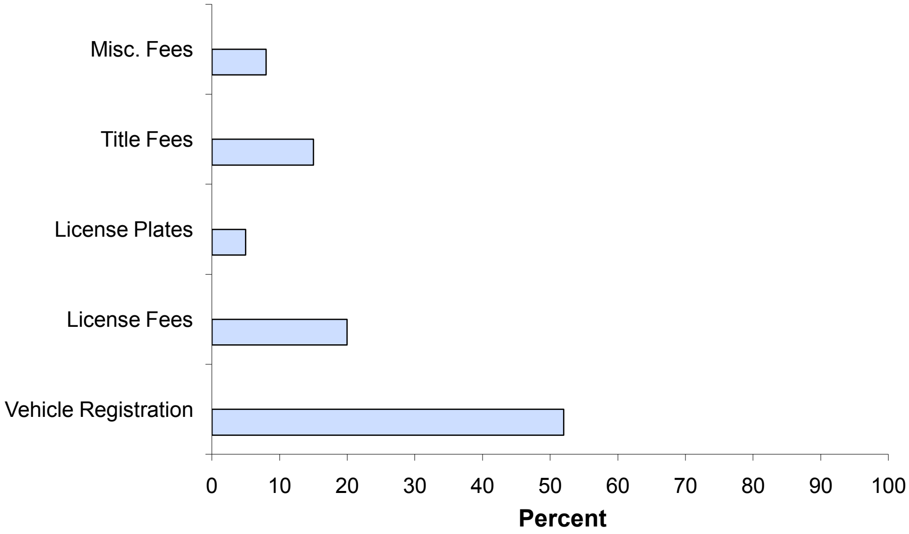
The recent significant statutory changes to motor vehicle fees are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1989		
Registrations	Biennialization of registration for vehicles weighing less than 18,000 pounds.	June 16, 1989
Administrative Changes in 1996		
Licenses	License renewal period extended to five years.	April 1, 1996
Legislation Enacted in 1997		
Licenses	Original license period extended to five years.	September 1, 1997
Motorcycles	Added $2.50 to annual fee for registration and $0.50 for each six months to license or permit and earmarked both to Motorcycle Safety Fund.	January 1, 1998
Administrative Changes in 1997		
Photo image fee	Photo image fee increased to $3.00.	April 1, 1997
Legislation Enacted in 1998		
Registration fees	Fees on passenger vehicle registration reduced 25 percent.	July 1, 1998
Administrative Changes in 2000		
License plates	Reissuance (January 2001-January 2003).	January 1, 2001
Licenses	License renewal period extended to eight years.	April 1, 2000
Administrative Changes in 2003		
Photo Image Fee	Increased photo image fee to $5.00.	February 1, 2003
Legislation Enacted in 2005		
Title Fees	Raised title fees from $10 to $20 and $30.	October 1, 2005
Insurance Buyback	Expanded the insurance buyback program.	October 1, 2005
Dealer Registration	Raised dealer/transporter registration fees by 50 percent.	October 1, 2005
Temporary Registration	Raised dealer issued temporary registration fees from $2 to $5.	October 1, 2005
Salvaged Vehicle Inspection	Raised salvaged vehicle inspection fees from $100 to $150.	October 1, 2005
Legislation Enacted in 2008		
Enhanced License	Western Hemisphere Travel Initiative (WHTI) licenses made available for an additional $30.	June 1, 2008
Legislation Enacted in 2009		
Registration Fee	Increased most registration fees by 25 percent.	September 1, 2009
License Fee	Increased licenses fees and the photo fee by 25 percent.	September 1, 2009
Supplemental Fee	Imposed a supplemental fee of $25 on registrations and $1 per six months on licenses in the MCTD.	September 1, 2009
License Plates	Increased the fee for license plate issuance from $15 to $25.	April 1, 2010

FEE LIABILITY

The chart below shows the shares of receipts from vehicle registrations, licenses, and other fees.

Motor Vehicle Fees Receipts by Source
State Fiscal Year 2009-10



Vehicle registration and driver licensing fees are a function of the fee schedules, the number of licensed drivers and registered vehicles, and the number of years between license and vehicle registration renewals. Historically, these motor vehicle fees fluctuate little as a result of economic conditions. In general, collections change when fee or renewal schedules change.

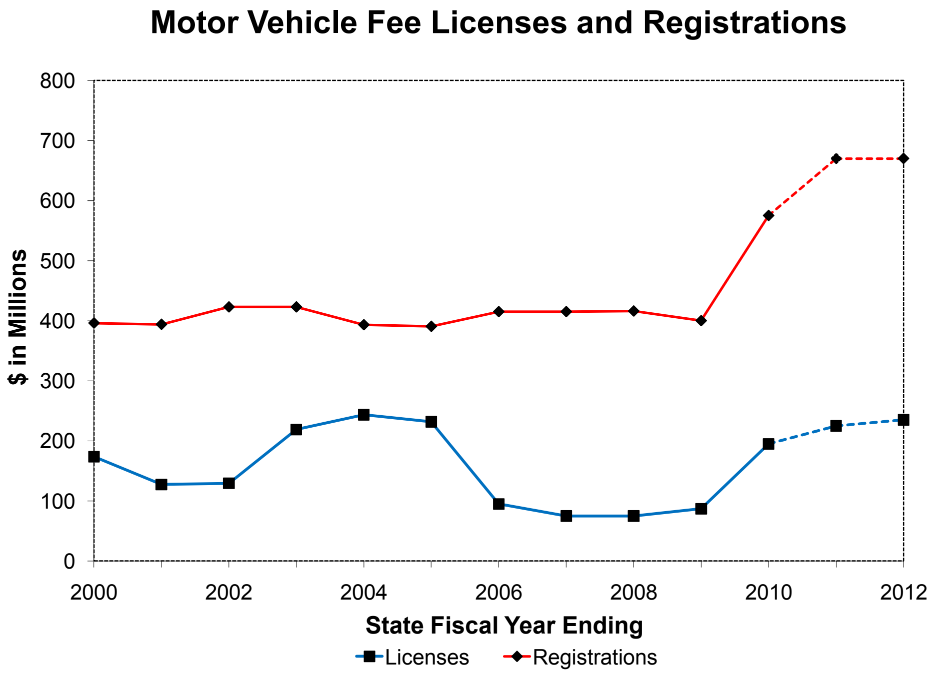
RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2010-11 Estimates

All Funds receipts for 2010-11 are estimated to be $1,281.2 million, an increase of $316.3 million, or 32.8 percent above 2009-10. This increase reflects the full implementation of the license and registration fee increase enacted in 2009 and the peak in the license renewal cycle. Receipts from the license and registration fee increase are estimated to be $140 million. The increase in the issuance cost of license plates from $15 to $25 is projected to increase revenue by $20 million. The MTA supplemental motor vehicle fees are estimated to increase receipts by $181 million.

Prior to April 2010, the Office of the State Comptroller (OSC) reported motor vehicle fee (MVF) receipts partially in the Consumption and User taxes category and partially in Miscellaneous Receipts. Beginning in April 2010, the OSC categorized all MVF receipts as part of the Miscellaneous Receipts section. Before consolidation, the miscellaneous receipts portion of MVF that was directed to the Dedicated Highway and Bridge Trust Fund was estimated to be $110 million.



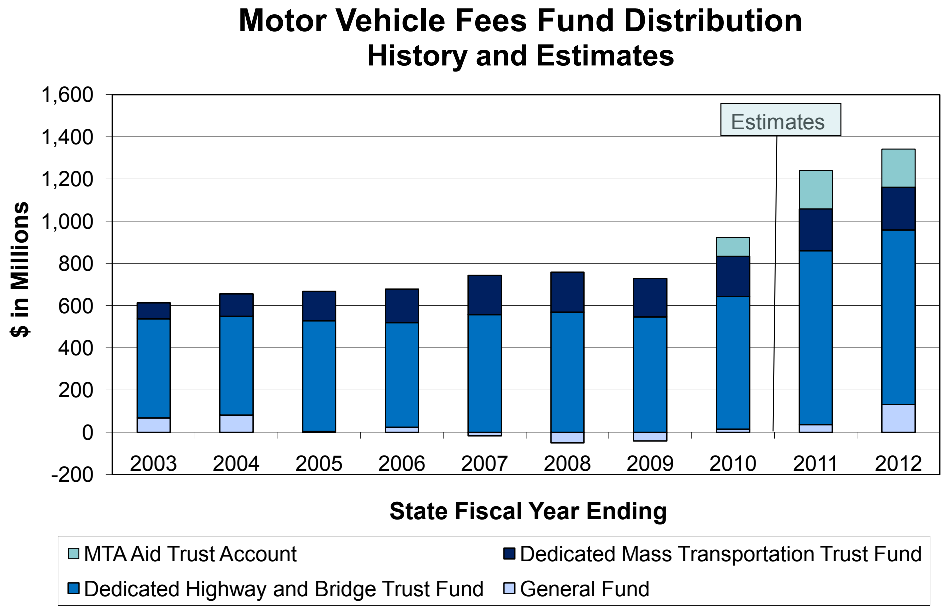
The increase in registration fee receipts in 2010-11 and 2011-12 is due to the 25 percent fee increase and the newly imposed supplemental motor vehicle fees. The number of registrations has remained relatively flat year to year. However, license renewals follow an eight-year renewal pattern and are currently at the portion of the cycle that will produce an increase in receipts.

2011-12 Projections

All Funds receipts are projected to be $1,383.2 million, an increase of $102 million, or 8 percent above 2010-11. The Executive Budget proposal would shift $78.1 million of General Fund revenue from miscellaneous licenses and fees to miscellaneous motor vehicle fees.

General Fund

Effective in 2006 and every year thereafter, of the amount of otherwise non-dedicated motor vehicle fees, ($169.4 million) are deposited in the Dedicated Funds. If there is a shortfall, revenues from the General Fund are transferred to the Dedicated Funds to cover the shortfall and any surplus monies remain in the General Fund. The General Fund covered a shortfall of $16.5 million in 2006-07, $50.9 million in 2007-08 and $42 million in 2008-09. Due to the surplus, the General Fund received $15.2 million in 2009-10. The General Fund in 2010-11 and 2011-12 is estimated to receive $36 million and $132 million, respectively. The increase in funds is due to the uptick in license renewals and the issuance cost increase of license plates on April 1, 2010. In addition, the Budget proposal would increase General Fund motor vehicle fees by $78.1 million effective in 2011-12. The following chart shows the estimated fund distribution from all sources of motor vehicle fees.



Other Funds

Since April 1, 1993, a percentage of registration fees have been deposited in the Dedicated Highway and Bridge Trust Fund. The percentage dedicated to the fund has been adjusted several times.

The revenues from the 25 percent registration and license increase effective September 1, 2009 are directed solely to the Dedicated Highway and Bridge Trust Fund (DHBTF). Of the balance of receipts generated from the cost of registration, 80 percent is directed to the Dedicated Highway and Bridge Trust Fund (DHBTF) while the remainder is directed to the Dedicated Mass Transportation Trust Fund (DMTTF).

Legislation in 2009 dedicated all receipts from the supplemental fee on registrations and licenses to the MTA Aid Trust Account of the MTA Special Assistance Fund.

In 2010-11, the Dedicated Highway and Bridge Trust Fund will receive an estimated $824 million and the Dedicated Mass Transportation Trust Fund will receive an estimated $199 million. The MTA Aid Trust Account is estimated to receive $181 million. Various other dedicated funds will receive a portion of the remaining $41.2 million.

In 2011-12, the Dedicated Highway and Bridge Trust Fund will receive a projected $827 million and the Dedicated Mass Transportation Trust Fund will receive a projected $202 million. The MTA Aid Trust Account is projected to receive $181 million. Various other dedicated funds will receive a portion of the remaining $41.2 million.

CAPITAL PROJECTS FUNDS

MISCELLANEOUS RECEIPTS - CAPITAL PROJECTS FUNDS
(millions of dollars)

	2009-10 Actual	2010-11 Estimated	Change	Percent Change	2011-12 Projected	Change	Percent Change
State Funds	3,881	4,444	563	14.5%	4,329	(115)	-2.6%
Federal Funds	2,061	2,455	394	19.1%	2,304	(151)	-6.2%
All Funds	5,943	6,900	957	16.1%	6,633	(266)	-3.9%

Note: Totals may differ due to rounding.

MISCELLANEOUS RECEIPTS - CAPITAL PROJECTS FUNDS
(millions of dollars)

	2009-10	2010-11	2011-12
Authority Bond Proceeds			
Transportation	939	853	966
Public Protection	293	276	328
Health and Social Welfare	144	189	263
Education	1,789	2,094	1,933
Mental Hygiene	543	366	476
Economic Development/ Government Oversight	785	1,124	788
General Government	35	21	0
Other	330	320	309
State Park Fees	25	24	24
Environmental Revenues	44	28	28
All Other	806	963	966
Total	5,734	6,259	6,081
Accounting Adjustment	(1,852)	(1,814)	(1,752)
Financial Plan Total	3,881	4,444	4,329

Miscellaneous receipts in the Capital Projects Fund type include reimbursements from the proceeds of bonds sold by public authorities, fees, and other sources of revenue dedicated to specific capital projects funds, primarily for environmental or transportation capital purposes. The Miscellaneous Receipts table reflects an accounting adjustment for spending made directly from bonds sold by public authorities for State projects. This capital activity, commonly referred to as "Off-Budget Spending," is not reflected in the Comptroller's accounting system, but is included in the Five-Year Capital Program and Financial Plan estimates and projections. Although Federal Funds are included in the first table, in order to provide a more complete picture of non-tax receipts, a fuller discussion of Federal Funds is included in a separate section.

Regarding capital projects spending activity in the Capital Program and Financing Plan, State Funds receipts are utilized to finance two types of capital spending. Authority bond proceeds are used for spending financed with Authority Bonds, while Other Miscellaneous Receipts (Parks, Environmental, and Other receipts) are used to finance State Pay-As-You-Go spending. Federal Funds receipts (Federal Grants) are utilized to finance Federal Pay-As-You-Go spending.

REIMBURSEMENT FROM AUTHORITY BOND PROCEEDS

Pursuant to statutory authorizations, State agencies enter into contractual arrangements with public authorities to provide for the financing of State capital projects. Such contractual arrangements for financing capital project spending exist with the Empire State Development Corporation, the Dormitory Authority of the State of New York, the Environmental Facilities Corporation, the New York State Housing Finance Authority, and the New York State Thruway Authority. Currently, the primary functional areas for which authority bond proceeds finance capital projects spending are transportation, higher education, and economic development. After the State makes payments directly from appropriations for project costs, it is reimbursed by the public authority from the proceeds of bonds sold previously, except for the" Off-Budget Spending" mentioned previously. The amount of reimbursements received annually reflects the level of bondable capital spending in that year and may fluctuate depending upon when the spending occurs and the timing of related bond sales. As bondable spending fluctuates to reflect the progress of capital programs across all areas, so do the bond receipts received as reimbursements.

STATE PARKS, ENVIRONMENTAL, AND OTHER REVENUES

The following miscellaneous receipts do not include reimbursements from authority bond proceeds.

State Parks user fees and related revenues are deposited into the State Parks Infrastructure Fund and the Miscellaneous Capital Projects Fund. These revenues, which are projected at $24 million in 2010-11 and $24 million in 2011-12, will be used to finance improvements at various facilities across the State's park system.

Other miscellaneous environmental revenues include receipts primarily from the sale of surplus State lands, the leases of coastal State property, and the sale of environmental license plates. These are deposited into the Environmental Protection Fund. Other environmental revenues from settlements with individuals and other parties who are liable for damage caused to State environmental properties are deposited in the Natural Resource Damages Fund.

Other moneys and fees are received in the various Capital Projects Funds to support capital programs at State facilities. Finally, certain receipts reimburse the State for capital spending on behalf of municipalities, public authorities, and private corporations, primarily for transportation and environmental projects. A major portion of these receipts reflect repayments pursuant to previously negotiated agreements.

MISCELLANEOUS RECEIPTS
DEBT SERVICE FUNDS

MISCELLANEOUS RECEIPTS - DEBT SERVICE FUNDS
(millions of dollars)

	2009-10 Actual	2010-11 Estimated	Change	Percent Change	2011-12 Projected	Change	Percent Change
General Fund	0	0	0	0	0	0	0
Other Funds	974	907	(67)	(6.88)	949	42	4.6
All Funds	974	907	(67)	(6.88)	949	42	4.6

Note: Totals may differ due to rounding.

MISCELLANEOUS RECEIPTS - DEBT SERVICE FUNDS
(millions of dollars)

	2009-10	2010-11	2011-12
Mental Hygiene Patient Receipts	388	298	325
SUNY Dormitory Fees	448	458	482
Health Patient Receipts	119	136	128
All Other	19	15	14
Total	974	907	949

Miscellaneous receipts in the Debt Service fund type include patient revenues, rental fees, medical insurance payments, interest income on investments, and other revenues. These revenues are typically first dedicated for the payment of lease-purchase agreements, contractual obligations, and debt service. These revenues support about 16 percent of the State's debt service payments and have been pledged as security for bonds issued for Mental Hygiene facilities, Department of Health facilities and the State University of New York (SUNY) dormitories. In addition, the revenues are used by the State to pay debt service on general obligation housing bonds. After such requirements are satisfied, the balance of most miscellaneous receipts, together with other receipts and transfers, flow back to the General Fund or to Special Revenue funds to offset the cost of State operations.

MENTAL HYGIENE PATIENT RECEIPTS

Payments from patients and various third-party payers, including Medicare and insurance companies, for services provided by the mental hygiene agencies are deposited in the Mental Health Services Fund as miscellaneous receipts. The revenues received are used to make lease-purchase payments to the Dormitory Authority of the State of New York (DASNY) for debt service on mental health services bonds. Additionally, portions of State and local assistance and Federal Medicaid payments to not-for-profit community facilities are earmarked to pay their share of debt service. These are also deposited as miscellaneous receipts in the Mental Health Services Fund. DASNY makes loans to eligible not-for-profit agencies providing mental health services and, in return, the voluntary agencies make rental payments equal to the amount of debt service on bonds issued to finance their projects.

DORMITORY FEES

Miscellaneous receipts in the SUNY Dormitory Fund are composed primarily of fees charged to SUNY students for dormitory room rentals and other associated fees. The receipts of the Fund are pledged for debt service on bonds issued by DASNY in the construction and rehabilitation of SUNY dormitories. These payments are made pursuant to a lease-purchase payment agreement.

HEALTH PATIENT RECEIPTS

Patient care reimbursements from the Department of Health's hospitals and the veterans' homes (Oxford, New York City and Western New York) are deposited into the Health Income Fund to make lease-purchase rental payments to DASNY. Similar to the Mental Hygiene Services Fund, the receipts are pledged for debt service of bonds issued by DASNY to finance the construction and rehabilitation of State hospitals and veteran's homes. These receipts are composed of payments from Medicaid, Medicare, insurance, and individuals.

ALL OTHER

The all other miscellaneous receipts category primarily includes investment income receipts from the Local Government Assistance Corporation, and payments from local housing agencies to finance the debt service costs on general obligation bonds.

FEDERAL GRANTS

To qualify to receive Federal grants, the State must comply with guidelines established by the Federal government. Each Federal grant must be used pursuant to Federal laws and regulations. Additionally, the State is required to follow specific cash management practices regarding the timing of cash draws from the Federal government pursuant to regulations for each grant award. In most cases, the State finances spending in the first instance, then receives reimbursement from the Federal government.

Total receipts from the Federal government are projected at $50.1 billion in 2010-11 and $44.3 billion in 2011-12. These revenues represent approximately 35 percent of total receipts in governmental funds, excluding general obligation bond proceeds, and are deposited into the General Fund, Special Revenue, Capital Projects and the Debt Service fund types.

GENERAL FUND

Federal grants are deposited into the General Fund only in limited instances. The Federal subsidiary payment related to Medicare Part D is the main Federal grant in the General Fund.

SPECIAL REVENUE FUNDS

Federal grants account for approximately two-thirds of all special revenue receipts and are used to support a wide range of programs at the State and local government level. Medicaid is the single largest program supported by Federal funds, and helps finance health care, medical supplies, and professional services for eligible persons. The State receives funds from the Federal government to make payments to providers for both State-operated and non-State-operated facilities. The State-operated category includes facilities of the Offices of Mental Health and Mental Retardation and Developmental Disabilities. These facilities receive Medicaid funds for the delivery of eligible services to patients.

Other Federal grants in the Special Revenue Funds support programs administered primarily by the departments of Education, Family Assistance, Health, and Labor. These programs include Welfare, Foster Care, Food and Nutrition Services, and Supplementary Educational Services.

CAPITAL PROJECTS FUNDS

Federal grants in the Capital Projects fund type finance transportation planning, engineering, and construction projects. Federal grants also support local wastewater treatment projects financed through the State's Revolving Loan Fund. Other Federal grants are for the rehabilitation of State armories, eligible housing programs, and other environmental purposes.

DEBT SERVICE FUNDS

Federal grants in the Debt Service fund type reflect interest subsidies received on Build America Bonds (BABs), pursuant to a financing option provided to the State through the American Recovery and Reinvestment Act (ARRA).

FEDERAL GRANTS BY FUND
(millions of dollars)

	General Fund	Special Revenue Funds			Total Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total All Funds
		Medicaid	Welfare	All Other				
2001-02	4	14,896	2,187	9,615	26,698	1,423	0	28,125
2002-03	6	17,297	2,542	11,847	31,686	1,567	0	33,259
2003-04	654	21,435	2,018	11,668	35,121	1,548	0	37,323
2004-05	9	22,666	1,998	9,828	34,492	1,721	0	36,222
2005-06	0	21,524	2,097	9,741	33,362	1,767	0	35,129
2006-07	151	22,906	2,243	8,540	33,689	1,738	0	35,578
2007-08	69	22,417	2,184	8,494	33,095	1,745	0	34,909
2008-09	45	24,844	2,597	9,466	36,907	1,882	0	38,834
2009-10	71	30,054	2,721	10,605	43,380	2,061	13	45,525
Estimated								
2010-11	60	32,202	2,826	12,489	47,517	2,461	60	50,098
2011-12	60	27,324	2,625	11,875	41,824	2,309	79	44,272

DEDICATED FUND TAX AND FEE RECEIPTS

All or portions of several tax sources, including the personal income tax, transportation-related taxes and fees, cigarette taxes, sales and use taxes, and corporate taxes are statutorily dedicated to various Special Revenue, Debt Service and Capital Projects Funds. The tables below identify each dedicated fund by Fund type, the source and amount of dedicated tax receipts deposited in 2009-10 and estimated to be deposited in 2010-11 to 2014-15. The estimates reflect Executive Budget recommendations.

DEDICATED FUND TAX RECEIPTS

DEDICATED FUND TAX AND FEE RECEIPTS ($ in millions)	2009-10 Actual	2010-11 Estimated	2011-12 Recommended
SPECIAL REVENUE FUNDS			
School Tax Relief Fund (STAR)			
Personal Income Tax	3,409	3,270	3,293
Dedicated Mass Transportation Trust Fund	658	658	675
Petroleum Business Tax	360	351	364
Motor Fuel Tax	106	108	109
Motor Vehicle Fees	192	199	202
Metropolitan Transportation Authority Financial Assistance Fund	1,353	1,669	1,736
MCTD Payroll Tax	1,228	1,372	1,437
Motor Vehicle Fees	88	181	181
Auto Rental Tax	24	35	37
Taxicab Surcharge	13	81	81
Mass Trans. Operating Assistance Fund	1,753	1,809	1,871
Corporate Surcharges			
Corporation Franchise Tax	366	422	479
Corporation and Utilities Tax	134	122	131
Insurance Tax	160	117	126
Bank Tax	226	193	195
Other			
Sales and Use Tax	657	762	742
Petroleum Business Tax	131	128	133
Corporation and Utilities — Sections 183 & 184	79	65	65
HCRA Resources Fund	910	1,137	1,272
Cigarette Tax	910	1,137	1,272
Other Special Revenue Funds			
Motor Vehicle Fees	42	41	41
Total Tax Receipts: Special Revenue Funds-Other	8,125	8,584	8,888
DEBT SERVICE FUNDS			
Revenue Bond Tax Fund			
Personal Income Tax	8,688	8,974	9,627
Clean Water/Clean Air Fund			
Real Estate Transfer Tax	294	447	501
Local Government Assistance Tax Fund			
Sales and Use Tax	2,467	2,688	2,802
Total Tax Receipts: Debt Service Funds	11,449	12,109	12,930
CAPITAL PROJECTS FUNDS			
Dedicated Highway and Bridge Trust Funds	1,851	2,033	2,075
Petroleum Business Taxes	613	597	619
Motor Fuel Tax	401	408	409
Motor Vehicle Fees	628	824	827
Highway Use Tax	137	129	140
Transmission Tax	20	15	15
Auto Rental Tax	52	60	65
Environmental Protection Fund			
Real Estate Transfer Tax	199	119	119
Total Tax Receipts: Capital Projects Funds	2,050	2,152	2,194
Total Tax Receipts: Other Funds	**21,624**	**22,845**	**24,012**

DEDICATED FUND TAX AND FEE RECEIPTS
($ in millions)

	2012-13 Recommended	2013-14 Recommended	2014-15 Recommended
SPECIAL REVENUE FUNDS			
School Tax Relief Fund (STAR)			
Personal Income Tax	3,322	3,510	3,693
Dedicated Mass Transportation Trust Fund	685	686	687
Petroleum Business Tax	376	377	378
Motor Fuel Tax	109	110	110
Motor Vehicle Fees	200	199	199
Metropolitan Transportation Authority Financial Assistance Fund	1,822	1,913	2,006
MCTD Payroll Tax	1,521	1,610	1,701
Motor Vehicle Fees	181	181	181
Auto Rental Tax	39	41	43
Taxicab Surcharge	81	81	81
Mass Trans. Operating Assistance Fund	1,956	2,040	2,155
Corporate Surcharges			
Corporation Franchise Tax	515	547	592
Corporation and Utilities Tax	134	138	141
Insurance Tax	131	140	165
Bank Tax	204	212	223
Other			
Sales and Use Tax	770	800	830
Petroleum Business Tax	137	138	139
Corporation and Utilities — Sections 183 & 184	65	65	65
HCRA Resources Fund	1,254	1,232	1,210
Cigarette Tax	1,254	1,232	1,210
Other Special Revenue Funds			
Motor Vehicle Fees	41	41	41
Total Tax Receipts: Special Revenue Funds-Other	9,080	9,422	9,792
DEBT SERVICE FUNDS			
Revenue Bond Tax Fund			
Personal Income Tax	9,706	10,256	10,699
Clean Water/Clean Air Fund			
Real Estate Transfer Tax	581	676	741
Local Government Assistance Tax Fund			
Sales and Use Tax	2,878	3,002	3,122
Total Tax Receipts: Debt Service Funds	13,165	13,934	14,562
CAPITAL PROJECTS FUNDS			
Dedicated Highway and Bridge Trust Funds	2,106	2,123	2,133
Petroleum Business Taxes	639	641	643
Motor Fuel Tax	412	413	415
Motor Vehicle Fees	824	836	836
Highway Use Tax	148	147	150
Transmission Tax	15	15	15
Auto Rental Tax	68	71	74
Environmental Protection Fund			
Real Estate Transfer Tax	119	119	119
Total Tax Receipts: Capital Projects Funds	2,225	2,242	2,252
Total Tax Receipts: Other Funds	**24,470**	**25,598**	**26,606**

DEDICATED FUND TAX RECEIPTS

The following discussion identifies the statutory provisions which establish the dedicated funds, the source of dedicated tax receipts and the formula used to allocate tax receipts to the funds, and the purposes for which those deposits may be used.

SPECIAL REVENUE FUNDS

School Tax Relief Fund ("STAR" Fund-053)

The School Tax Relief Fund was established by Section 97 of the State Finance Law. The Fund consists of all moneys credited or transferred thereto from the General Fund or from any other fund or sources. The moneys of the Fund are appropriated for school property tax exemptions granted pursuant to the Real Property Tax Law and for payments to the city of New York pursuant to State Finance Law and Tax Law.

Dedicated Mass Transportation Trust Fund ("DMTTF" Fund-073)

The Dedicated Mass Transportation Trust Fund was established by Section 89-c of the State Finance Law. State tax receipts of the DMTTF are derived from the State's motor fuel tax, motor vehicle fees, and a portion of the petroleum business tax. The moneys of the DMTTF, pursuant to an appropriation, are used for the reconstruction, replacement, purchase, modernization, improvement, reconditioning, preservation and maintenance of mass transit facilities, vehicles, and rolling stock, or the payment of debt service or operating expenses incurred by mass transit operating agencies, and for rail projects.

Metropolitan Transportation Authority Financial Assistance Fund (Fund-225)

Chapter 25, Laws of 2009, created the Metropolitan Transportation Authority Financial Assistance Fund under the joint custody of the Commissioner of Taxation and Finance and the State Comptroller. Moneys in this special fund are to be kept separately from and not be commingled with any other moneys in the joint or sole custody of the State Comptroller or the Commissioner of Taxation and Finance. The fund contains all moneys collected, credited or transferred to it from any other fund, account or source, including the revenues derived from sources newly imposed by Chapter 25, Laws of 2009. These new revenue sources are:

- the metropolitan commuter transportation mobility tax;
- supplemental motor vehicle fees: a supplemental learner permit/license fee in the Metropolitan Commuter Transportation District (MCTD) and a supplemental registration fee in the MCTD;
- the supplemental tax on passenger car rentals in the MCTD; and
- the tax on medallion taxicabs in the MCTD. (On July 1, 2010, the incidence of the medallion taxicab tax is paid by medallion owners, not taxicab vehicle owners.)

Revenues generated from the mobility tax are directed to the Mobility Tax Trust Account of the MTA Financial Assistance Fund. Revenues generated from the supplemental motor vehicle fees, supplemental tax on car rentals, and the tax on taxicab rides are directed to the MTA Aid Trust Account of the MTA Financial Assistance Fund.

Mass Transportation Operating Assistance Fund ("MTOAF" Fund-313)

The Mass Transportation Operating Assistance Fund was established by Section 88-a of the State Finance Law. Tax receipts dedicated to the fund are comprised of a 17 percent surcharge levied on the portion of the State general business corporation tax, bank tax, the corporations and utilities tax, and the insurance tax allocated to the Metropolitan Commuter Transportation District (MCTD), a .375 percent sales tax levied in the MCTD, a portion of the petroleum business tax, and a portion of the taxes on transportation and transmission companies. The moneys of the MTOAF are subject to appropriation and are allocated among two accounts within the Fund. The moneys in each account must be used for the transportation assistance purposes for which each account was established. The accounts of MTOAF include:

- Public Transportation Systems Operating Assistance Account (PTOA - Fund 313-01)
- Metropolitan Mass Transportation Operating Assistance Account (MMTOA - Fund 313-02)

The PTOA receives:

- 45 percent of the 19.7 percent of the basic petroleum business tax that is dedicated to the MTOAF.

The MMTOA receives:

- receipts collected from the taxes imposed on transportation and transmission companies by sections 183 and 184 of Article 9 of the Tax Law;
- all tax receipts from the 17 percent surcharge imposed on taxpayers that are subject to the corporation franchise tax, corporations and utilities tax, the insurance taxes, and the bank tax and that conduct business in the Metropolitan Commuter Transportation District ("MCTD");
- tax receipts from the 0.375 percent sales and use tax imposed in the MCTD; and
- 55 percent of the 19.7 percent of the basic petroleum business tax that is dedicated to the MTOAF.

Health Care Reform Act Resources Fund ("HCRA" Fund-061)

The Health Care Reform Act (HCRA) Resources Fund was established by section 92-dd of the State Finance Law and receives 76 percent of total State cigarette tax revenues. Other revenues dedicated to this Fund include hospital surcharges and assessments, a

Covered Lives Assessment on commercial insurers and a portion of cigarette revenue from New York City's locally imposed cigarette tax. These resources support numerous public health, Medicaid and insurance programs for the uninsured/underinsured; including Family Health Plus, Healthy NY, Child Health Plus, anti-tobacco initiatives, graduate medical education, working disabled, and indigent care.

State Lottery Fund (Fund-160)

The State Lottery Fund was established by Section 92-c of the State Finance Law. Receipts of the Fund are derived from the sale of lottery tickets and from video gaming machines. The moneys of the Fund are used to pay the expenses incurred in the operation of the State Lottery and for the purchase of machinery or other capital equipment by the Division of the Lottery, and to provide aid to all school children, including pupils with special educational needs and handicapping conditions. The table below summarizes the receipts for education generated from lottery and video lottery terminals (VLTs). Lottery receipts are classified as Special Revenue miscellaneous receipts.

STATE LOTTERY FUND
(millions of dollars)

	2009-10 Actual	2010-11 Estimated	2011-12 Recommended	2012-13 Recommended	2013-14 Recommended	2014-15 Recommended
Lottery	2,152	2,085	2,210	2,261	2,268	2,278
VLTs	493	920	682	834	895	906
Total Lottery	2,645	3,005	2,892	3,095	3,163	3,184

Other Special Revenue Funds

Since 2006, certain motor vehicle fees have been reclassified from special revenue miscellaneous receipts to special revenue motor vehicle fees. Though these receipts have moved from one category to another; they still remain dedicated to the same funds.

DEBT SERVICE FUNDS

Revenue Bond Tax Fund ("RBTF" Fund 311-02)

The Revenue Bond Tax Fund was established by Section 92-z of the State Finance Law. The Fund receives 25 percent of the receipts from the State personal income tax imposed by Article 22 of the Tax Law. Payments from the Fund are pledged to pay the debt service on State-supported Personal Income Tax Revenue Bonds, which support a variety of capital projects. No later than the fifteenth day of each month, the Comptroller is required to pay over to the General Fund all money in the RBTF in excess of the aggregate amount required to be set aside for debt service.

Clean Water/Clean Air Fund ("CWCAF" Fund-361)

The Clean Water Clean Air Fund was established by Section 97-bbb of the State Finance Law. The Fund receives all real estate transfer taxes in excess of the deposit to the Environmental Protection Fund. The moneys in the Fund are used to reimburse the General Fund for transfers made to the General Debt Service Fund to pay the debt service on 1996 Clean Water/Clean Air general obligations bonds. At the end of each month, the Comptroller is required to pay over to the General Fund all moneys in the CWCAF in excess of the aggregate amount required for such reimbursements.

Local Government Assistance Tax Fund ("LGATF" Fund-364)

The Local Government Assistance Tax Fund was established by Section 92-r of the State Finance Law. The Fund receives moneys collected from the imposition of the State sales and compensating use taxes in an amount attributable to a 1 percent rate of taxation. Payments from the Fund are pledged to pay the debt service on State-supported Local Government Assistance Corporation Bonds originally issued in the early 1990s to finance payments to local governments previously financed by the State. The Comptroller is required to pay over to the General Fund all money in the LGATF in excess of the aggregate amount required to be set aside for debt service. In addition, local aid payments due to New York City and assigned by the City to the Sales Tax Asset Receivable Corporation (STARC) are appropriated from the LGATF.

CAPITAL PROJECTS FUNDS

Dedicated Highway and Bridge Trust Fund ("DHBTF" Fund-072)

The Dedicated Highway and Bridge Trust Fund was established by Section 89-b of the State Finance Law. The DHBTF receives moneys from the motor fuel tax, motor vehicle fees, highway use tax, auto rental tax, petroleum business tax and a portion of the transportation and transmission tax imposed under the corporations and utilities tax. The moneys of the Fund, pursuant to an appropriation, are used to support transportation, including the reconstruction, replacement, reconditioning, restoration, rehabilitation and preservation of State, county, town, city and village roads, aviation projects, matching Federal highway grants, snow and ice removal, acquisition of real property, bus safety inspection, rail freight facilities, intercity rail passenger facilities, state, municipal and private ports, ferry lines, and certain DMV expenses. Payments from the Fund are also pledge to support the debt service on State-supported Dedicated Highway and Bridge Trust Fund Bonds.

Environmental Protection Fund ("EPF" Fund-078)

The Environmental Protection Fund was established by Section 92-s of the State Finance Law. The Fund currently receives real estate transfer taxes in the amount of $119 million. Legislation proposed in the Executive Budget would set the deposit at $96 million. Moneys in the Fund are deposited to the following accounts:

- The Solid Waste Account for any non-hazardous municipal landfill closure project, municipal waste reduction or recycling project or local solid waste management plans.

- The Parks, Recreation and Historic Preservation Account for any municipal park project, historic preservation project, urban cultural park project, waterfront revitalization program, or coastal rehabilitation project.

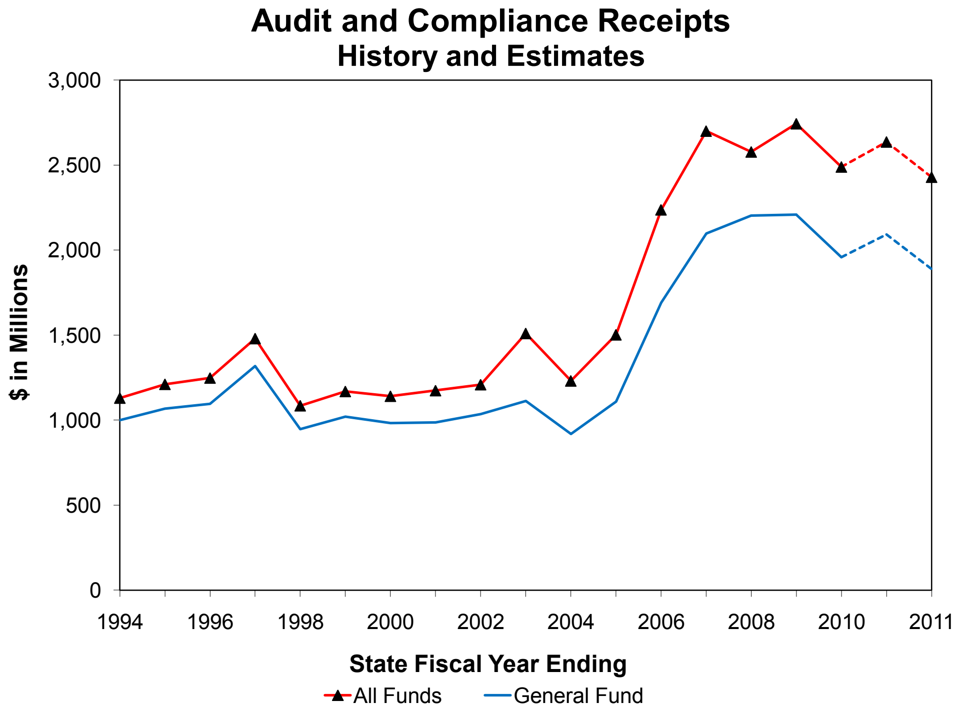
- The Open Space Account for any open space land conservation project, bio-diversity stewardship and research, non-point source abatement and control projects, upon the request of the Director of the Division of the Budget.

AUDIT AND COMPLIANCE RECEIPTS

AUDIT AND COMPLIANCE RECEIPTS
(millions of dollars)

	2009-10 Actual	2010-11 Estimated	Change	Percent Change	2011-12 Projected	Change	Percent Change
General Fund	1,959	2,470	511	26.1	2,263	(207)	(8.4)
Other Funds	530	166	(364)	(68.7)	166	0	0.0
All Funds	2,489	2,636	147	5.9	2,429	(207)	(7.9)

Note: Totals may differ due to rounding.



PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- require the Lottery Division to offset tax debts against payouts of $600 or more.

DESCRIPTION

This section summarizes the cash collected by the Department of Taxation and Finance related to its audit and compliance activities. The amounts reported are already reflected in the estimates of individual tax receipts contained in this volume.

The Department of Taxation and Finance’s Office of Tax Enforcement (OTE) is composed of the Audit Division, the Division of Collections and Civil Enforcement (“Collections”) and the Criminal Division. The Audit Division is responsible for verifying that the correct tax has been paid and the Compliance Division is responsible for collecting the correct tax.

The collections base of OTE activities is the correct amount of taxes legally required to be paid, which is verified through the audit process. The receipts from enforcement activities are the result of incorrect tax payments, including filing returns with math errors; filing past due returns or the incorrect return; the improper interpretation of Tax Law, regulations or instructions; and tax evasion that results in a gap between the amount that is legally due and required to be paid and the amount that was voluntarily paid. In certain instances, taxpayers may also be subject to penalties and interest.

Growth in Recent Collections

TABLE 1
Growth All Funds Audit and Compliance Collections
(in millions)

	All Funds Audit and Compliance Collections	Change from Prior Year	Percent Change from Prior Year
1993-94	1,130		
1994-95	1,211	81	7.2
1995-96	1,247	36	3.0
1996-97	1,480	233	18.7
1997-98	1,085	(395)	(26.7)
1998-99	1,169	84	7.7
1999-00	1,141	(28)	(2.4)
2000-01	1,174	33	2.9
2001-02	1,209	35	3.0
2002-03	1,510	301	24.9
2003-04	1,232	(278)	(18.4)
2004-05	1,503	271	22.0
2005-06	2,237	734	48.8
2006-07	2,700	463	20.7
2007-08	2,577	(123)	(4.5)
2008-09	2,743	166	6.4
2009-10	2,489	(254)	(9.3)
Estimated			
2010-11	2,636	147	5.9
2011-12	2,429	(207)	(7.9)

Collectively, it is estimated that the portion of All Funds receipts attributable to enforcement activities and reflected in the estimates and projections of the individual taxes, will be about $2.6 billion in 2010-11 and $2.4 billion in 2011-12. This source of receipts has grown dramatically in recent years, having more than doubled since 2001-02. This growth can be attributed to a combination of policy actions adopted over the past few years and improved performance by the Department of Taxation and Finance in identifying and concluding productive audits. Collections for 2009-10 declined 9.3 percent, following a 6.4 percent increase in 2008-09, a 4.5 percent decrease in 2007-08 and robust growth of 20.7 percent in 2006-07 and 48.8 percent in 2005-06. Prior to 2002-03, enforcement receipts were relatively stable in the range of $1.1 billion to $1.2 billion annually.

Historic Growth in 2005-06 and 2006-07 Audit and Compliance Receipts

TABLE 2
ALL FUNDS AUDIT AND COMPLIANCE COLLECTIONS BY TAX TYPE
(in millions)

	2004-05	2005-06	2006-07	Two-Year Total Change	Two-Year Percent Change
Personal Income Tax	**630**	**701**	**732**	**102**	**16.2**
User Taxes and Fees	**331**	**350**	**352**	**21**	**6.3**
Business Taxes	**503**	**1,144**	**1,546**	**1,043**	**207.4**
Corporation and Utilities Taxes	43	101	52	9	20.9
Corporate Franchise Tax	397	653	1,133	736	185.4
Bank Tax	24	330	299	275	1,145.8
Insurance Tax	32	33	56	24	75.0
Petroleum Business Taxes	7	27	6	(1)	(14.3)
Other Taxes	**38**	**41**	**70**	**32**	**84.2**
Total	**1,503**	**2,237**	**2,700**	**1,197**	**79.6**

The historic two-year growth in audit and compliance receipts of $1.2 billion (80 percent) from 2004-05 to 2006-07 was largely attributable to growth in audit collections from business taxes of nearly 207 percent, or $1,043 million.

The significant increase attributable to business taxes was primarily the result of: (1) the Voluntary Compliance Initiative (VCI) enacted in 2005, which provided for reduced penalties for the voluntary reporting of tax shelter activities, (2) several audits involving back years that were closed following a favorable Tax Tribunal decision, and (3) the settlement of audit issues with a significant number of financial service and other large multi-state taxpayers.

AUDIT AND COMPLIANCE RECEIPTS

Estimated Receipts for 2010-11

TABLE 3
ALL FUNDS AUDIT AND COMPLIANCE COLLECTIONS BY TAX TYPE
(in millions)

	2009-10*	2010-11	Change from Prior Year	Percent Change from Prior Year
Personal Income Tax	**978**	**989**	**11**	**1.1**
User Taxes and Fees	**376**	**422**	**46**	**12.2**
Business Taxes	**1,084**	**1,181**	**97**	**8.9**
Corporation and Utilities Taxes	52	30	(22)	(42.3)
Corporate Franchise Tax	697	896	199	28.6
Bank Tax	290	224	(66)	(22.8)
Insurance Tax	35	25	(10)	(28.6)
Petroleum Business Taxes	10	6	(4)	(40.0)
Other Taxes	**51**	**44**	**(7)**	**(13.7)**
Total	**2,489**	**2,636**	**147**	**5.9**

*** Includes PAID program receipts**

Audit and compliance receipts for 2010-11 are estimated to be $2,636 million, an increase of $147 million (5.9 percent) from 2009-10. The increase is composed of: $11 million (1.1 percent) from personal income taxes, $86 million (12.2 percent) from user taxes and fees and $97 million (8.9 percent) from business taxes. Overall, audit and compliance receipts are projected to continue to remain significantly above the average collections for the period before 2005-06. The receipts increase from 2009-10 is mainly due to the hiring of additional audit and compliance staff, partially offset by the loss of the one-time impact of the 2009-10 Penalty and Interest Discount (PAID) program, which increased 2009-10 All Funds receipts by $50 million.

Estimated Receipts for 2011-12

TABLE 4
ALL FUNDS AUDIT AND COMPLIANCE COLLECTIONS BY TAX TYPE
(in millions)

	2010-11	2011-12	Change from Prior Year	Percent Change from Prior Year
Personal Income Tax	**989**	**1,002**	**13**	**1.3**
User Taxes and Fees	**422**	**417**	**(5)**	**(1.2)**
Business Taxes	**1,181**	**966**	**(215)**	**(18.2)**
Corporation and Utilities Taxes	30	54	24	80.0
Corporate Franchise Tax	896	728	(168)	(18.8)
Bank Tax	224	165	(59)	(26.3)
Insurance Tax	25	13	(12)	(48.0)
Petroleum Business Taxes	6	6	0	0.0
Other Taxes	**44**	**44**	**0**	**0.0**
Total	**2,636**	**2,429**	**(207)**	**(7.9)**

Audit and compliance receipts for 2011-12 are projected to be $2,429 million, a decline of $207 million (7.9 percent) from 2010-11. The decline in audit and compliance receipts is mainly due to fewer projected large business tax cases. The overall decrease results from a $215 million decrease in business taxes and a $5 million decrease in user taxes and fees, offset by an increase of $13 million in the personal income tax.

Trends in All Funds Audit and Tax Receipts

Table 5 below reports All Funds audit and compliance collections, All Funds tax receipts, and All Funds audit and compliance collections as a percent of All Funds tax receipts. Although All Funds audit and compliance receipts have fluctuated over time, they have consistently comprised roughly 3 percent to 5 percent of total All Funds tax receipts. In 2008-09 and 2009-10, audit and compliance receipts were 4.5 percent and 4.4 percent, respectively, of All Funds tax receipts. In 2010-11 and 2011-12, audit and compliance receipts are expected to be 4.4 percent and 3.8 percent of total All Funds tax receipts, respectively.

TABLE 5

All Funds Audit and Compliance Collections
As A Percent of All Funds Tax Receipts*
(in millions)

	All Funds Audit and Compliance Collections	All Funds Tax Receipts	Audit and Compliance As a Percent of All Funds
1993-94	1,130	33,026	3.4
1994-95	1,211	33,050	3.7
1995-96	1,247	33,927	3.7
1996-97	1,480	34,620	4.3
1997-98	1,085	35,921	3.0
1998-99	1,169	38,495	3.0
1999-00	1,141	41,389	2.8
2000-01	1,174	44,658	2.6
2001-02	1,209	42,475	2.8
2002-03	1,510	39,626	3.8
2003-04	1,232	42,851	2.9
2004-05	1,503	48,598	3.1
2005-06	2,237	53,578	4.2
2006-07	2,700	58,740	4.6
2007-08	2,577	60,871	4.2
2008-09	2,743	60,338	4.5
2009-10	2,489	56,440	4.4
Estimated			
2010-11**	2,636	59,419	4.4
2011-12	2,429	63,346	3.8

* Excludes Metropolitan Commuter Transportation Mobility Tax receipts.

As shown in Table 6 below, the historical distribution of audit and compliance receipts by broad tax categories (i.e., personal income tax, business taxes, user taxes and fees, and miscellaneous/other taxes) differs significantly from the distribution of voluntary receipts by tax category. For example, the share of total audit and compliance receipts attributable to the business tax category ranged from about 27 percent to 41 percent over the ten-year period beginning in 1995-96. However, the business taxes share of total taxes ranged from 12 percent to 19 percent over that same period. As a result of significant audit collections in the bank and corporate franchise taxes discussed earlier, the percentage share of audit receipts from business taxes deviated from these historical trends and accounted for 51 percent, 57 percent, 53 percent and 53 percent, respectively, of total 2005-06, 2006-07, 2007-08 and 2008-09 audit receipts. In 2009-10, the percentage share of total audit receipts from business taxes fell to 44 percent. This percentage share reduction was mainly due to a decline in large case settlements and an increase in the personal income tax share. In 2010-11 and 2011-12, the share of audit receipts from the business taxes category is expected to remain below the 2005-06 to

2008-09 level at 44 percent and 40 percent, respectively, due to the same factors contributing to the decline in 2009-10 business tax audit receipts described above.

Table 6

	Percent of All Funds Audit and Compliance Collections By Tax Category				**Percent of All Funds* Collections By Tax Category**			
	Business Taxes	**Other Taxes and Fees**	**User Taxes and Fees**	**Personal Income Tax**	**Business Taxes**	**Other Taxes and Fees**	**User Taxes and Fees**	**Personal Income Tax**
1993-94	30	5	22	43	21	11	18	50
1994-95	29	6	25	40	19	11	20	50
1995-96	37	7	19	37	18	11	20	51
1996-97	41	5	20	34	19	10	20	51
1997-98	39	6	20	35	18	11	20	51
1998-99	40	5	19	36	17	10	20	53
1999-00	34	6	20	40	15	10	20	55
2000-01	31	4	22	43	13	8	19	60
2001-02	32	5	20	43	12	8	19	61
2002-03	31	4	20	45	13	8	22	57
2003-04	27	4	23	46	12	8	23	57
2004-05	34	3	21	42	12	8	23	57
2005-06	51	3	15	31	12	8	21	59
2006-07	57	3	13	27	15	3	23	59
2007-08	53	1	14	32	14	3	23	60
2008-09	53	2	14	31	13	3	23	61
2009-10	44	2	15	39	13	2	23	62
Estimated								
2010-11**	44	2	16	38	13	3	24	60
2011-12	40	2	17	41	13	3	23	61

* Excludes Metropolitan Commuter Transportation Mobility Tax receipts.

Similarly, the total share of audit and compliance receipts attributable to the personal income tax does not match its share of total taxes. However, during this ten-year period, the percent shares of audit and compliance receipts and total tax receipts attributable to the user taxes and fees category were more consistent with one another, with both the audit and compliance percentage and the tax receipts percentage ranging from 19 percent to 23 percent. As a result of the high level of business tax audit receipts during the 2005-06 through 2008-09 period, the audit and compliance shares of audit receipts for user taxes and fees and the personal income tax deviated from these historical trends, but their respective shares of total tax receipts remained consistent with history. With the estimated increases in personal income tax and sales tax receipts, the 2010-11 and 2011-12 audit and compliance shares for personal income tax and user taxes and fees are expected to be higher than the level of 2005-06 through 2008-09.

Risk to the Forecast

The audit and compliance plan in the forecast period contains risk. Even though the share of audit and compliance receipts received from business taxes is expected to decline from the high levels of 2005-06 through 2008-09, these taxes still represent approximately 40 percent of the total expected audit and compliance receipts. Audit and compliance receipts for the 2005-06 through 2008-09 period were driven by voluntary compliance programs and the settlement of several large financial services and multi-state taxpayer cases. Audit and compliance receipts in the forecast period are expected to be driven more by routine audits and less by the large cases of the last few years. In the forecast period, the focus of audit and compliance is shifting from business taxes to user taxes and fees and the personal income tax, although these gains will not offset the decline in business tax receipts. Several enforcement programs recently enacted as well as additional audit and compliance staff added last year will be focused on these tax areas. In particular, focusing new resources on lower volume sales tax vendors provides significant risks to the forecast.

Significant Legislation Impacting Historical Audit Receipts

Significant statutory changes that have had an impact on audit and compliance activities are summarized below.

Tax Amnesty – 1994

In 1994, New York State authorized a three-month tax amnesty program that focused on three types of taxpayers. The income tax component focused on non-residents required to file a New York return. The business tax component also focused on out-of-State taxpayers whose activities in New York State make them taxpayers, and the compensating use tax component focused on resident individuals and small businesses. This amnesty program required eligible taxpayers to pay any taxes owed in addition to all applicable interest, in exchange for the waiver of any related criminal prosecution or other administrative penalties.

Tax Amnesty – 1996

The legislation established a three-month tax amnesty program. Between November 1, 1996, and January 31, 1997, certain taxpayers could apply for a waiver of penalty relating to certain unpaid tax liabilities for taxable periods ending, or transactions or uses occurring, on or before December 31, 1994. The taxes covered by this amnesty program were the same taxes that were included under the 1985 program. These taxes were the personal income tax, the corporate franchise tax imposed under Article 9-A, certain taxes imposed under Article 9, the sales and use tax and the estate and gift tax. Three additional taxes that did not exist in 1985 were also covered by the program: the beverage container tax, the auto rental tax and the hotel occupancy tax.

The amnesty program excluded several groups of taxpayers. The excluded groups included those with outstanding liabilities owed under “sin” taxes (i.e., the alcoholic beverage tax and cigarette and tobacco products taxes), the real estate transfer tax, the real property gains tax, corporate franchise taxes imposed on banks and insurance companies, large corporations (those with more than 500 employees in the United States), regulated utilities and entities principally engaged in the conduct of aviation (with a tax liability under Article 9 of the Tax Law). Taxpayers involved in a criminal investigation or civil or criminal litigation relating to the penalty for which amnesty is sought were also excluded. Finally, taxpayers that received benefits under New York State’s 1985 and 1994 amnesty programs were ineligible for amnesty for those taxes for which they already received benefits.

Tax Amnesty – 2003

Taxpayers with outstanding liabilities were given a limited opportunity to settle those liabilities without penalties and with a reduction in the appropriate rate of interest. The tax amnesty applied to the personal income tax, sales and compensating use tax, corporate franchise taxes other than the bank and insurance taxes, and various excise taxes. The amnesty applied to taxable periods ending on or before December 31, 2000, or in the case of the sales tax or excise taxes with quarterly returns, periods ending on or before February 28, 2001. Under the estate tax, amnesty applied to estates of decedents dying on or before February 1, 2000.

Amnesty participants received a waiver of certain penalties and a two-percent reduction in the applicable interest rate relating to unpaid liabilities. Amnesty was not granted to taxpayers under criminal investigation, taxpayers who had been convicted of a tax-related crime, taxpayers who were parties to administrative proceedings with the Department of Taxation and Finance, or taxpayers with more than 500 employees.

Intangible Assets

Legislation enacted in 2003 required taxpayers (with some exceptions) who deduct interest or royalty expenses for amounts paid to a related member for the use of intangible assets to add those deductions back to their taxable income.

Temporary Tax-Shelter Disclosure and Voluntary Compliance Initiative

Legislation enacted in 2005 created a tax-shelter disclosure requirement for taxpayers or advisors engaging in abusive tax shelters to provide copies of their Federal reports to the Commissioner of Taxation and Finance. The legislation also allowed taxpayers a limited period of time (from October 1, 2005, through March 1, 2006) to avoid substantial new penalties by voluntarily disclosing participation in such a shelter by filing amended returns for the liability periods affected. The Voluntary Compliance Initiative was available for tax liabilities under Articles 9, 9-A, 22, 30, 32 and 33. The disclosure reporting requirements mirror the permanent Federal requirements and were to sunset in July 2007. Chapter 60, Laws of 2007, extended the provisions by two years, to July, 2009. Legislation enacted in 2008 extended these provisions by an additional two years and re-opened the Voluntary Compliance Initiative from November 1, 2008, through January 31, 2009.

Penalty and Interest Discount Program (PAID)

As part of the Deficit Reduction Package enacted in November 2009, PAID was designed to increase tax audit and compliance collections by temporarily reducing the penalties and interest owed on many overdue tax liabilities for which the taxpayer had been issued an assessment or final determination by the Department of Taxation and Finance. Specifically, the assessment or final determination must have been issued on or before December 31, 2006. Penalties and interest were reduced by either 20 percent or 50 percent (depending on the age of the assessment) if the tax had been paid in full by the end of PAID, which was open for collections from January 15, 2010, through March 15,

2010. This program increased All Funds audit and compliance receipts by $50 million in 2009-10.